

Frank Knight, Max Weber, Chicago Economics and Institutionalism

Ross Emmett¹

[Max Weber is] one of the few men I have read for whom *I still have some respect after reading them.*²

Max Weber's approach to social scientific methodology and his comparative historical sociology were important resources that Knight drew upon in his efforts to create a social science that transcended the terms of the neoclassical-institutionalist debate during the 1920s and 1930s. An examination of the connection between Knight's reading of Weber's work and his effort to balance economic theory with a comparative economic history will enable us to understand better

1. My account of the relations between Knight and Weber took shape in the context of an e-mail discussion with Richard Boyd and Bill Buxton and I wish here to thank them for their contribution to my understanding of both Weber and Knight. I also wish to thank Claus Noppeney for making available his notes on some of the correspondence in the Talcott Parsons' Papers that I had overlooked. This paper develops in more detail some brief comments made in my introduction to a two-volume collection of Knight's published essays (*Selected Essays by Frank H. Knight, volume I: "What is Truth" in Economics?* [Chicago: University of Chicago Press, 1999]). I wish to thank Maria Brouwer, Jim Buchanan and Alexander Ebner for email correspondence regarding the possibility that Knight heard Weber lecture in Heidelberg in 1913; and Richard Wagner, Peter Boettke, Karen Vaughn, Marc Casson, and John Coates for helpful comments during presentations at the J.M. Kaplan Workshop in Political Economy (George Mason University, March 1999), the History of Economics Society (UNC-Greensboro, June 1999), the Economic History Society, Birmingham, UK (April 2001), and James Madison College (Michigan State University, February 2002). Permission for the publication of materials from the Frank H. Knight Papers in The University of Chicago Archives, the Talcott Parsons Papers in Harvard University Archives, and the Jacob Viner Papers in the Princeton University Library is gratefully acknowledged.

2. Frank Knight in a letter to Abram L. Harris, 27 May 1936, Frank H. Knight Papers, Box 60, Folder 6.

one of the central paradoxes regarding Knight's work: although Knight was the 'dean of the opposition to institutionalism'³ and chief proponent of the scientific status of neoclassical theory during the interwar years, by the postwar period his work was relegated to the non-scientific realm of 'social philosophy'.

The paradox becomes clearer (although perhaps not resolved) when we provide a fuller account of the resources Knight drew upon in articulating the nature of a social science and the role within it of history, culture and interpretation. One of those resources was the work of Weber. But the purpose here is not to append a new label – Weberian – to Knight's work, nor is it specifically to trace the 'influence' of Weber on Knight or the all the various connections between their work (for example, nothing will be said of the similarities in their treatment of entrepreneurship, for this see Brouwer)⁴. Rather, an examination of how Knight drew upon Weber can broaden our understanding of the plurality of views present within American interwar economics and assist an investigation of the way some views were marginalized in the discipline as a new 'scientific' economics emerged.

In order to assist the reader, let me state at the outset the perspective on Knight's work that has gradually percolated through my writings on Knight,⁵ and that forms the background for this paper. First, labeling Knight as an 'institutionalist,' 'neoclassicist,' or 'Austrian' is not particularly helpful once we accept the pluralistic context of the interwar period. (Nor is it necessary to find a new label for Knight, such as a 'displaced' member of the Weber's German school of historical sociology – a suggestion made by Richard Wagner.) Rather than appending labels, our effort can be focused on understanding both how he used the resources at his disposal to make his point

3. Yuval P. Yonay, *The Struggle over the Soul of Economics: Institutional and Neoclassical Economists in America between the Wars* (Princeton, NJ: Princeton University Press, 1998), p. 144.

4. Maria T. Brouwer, 'Weber, Schumpeter and Knight on Entrepreneurship and Economic Development', in J.S. Metcalfe and U. Cantner (eds.), *Change, Transformation and Development* (Heidelberg: Physica-Verlag, 2002), pp. 145-67.

5. See especially "'What is Truth" in Capital Theory?: Five Stories Relevant to the Evaluation of Frank Knight's Contribution to the Capital Controversy', in John B. Davis (ed.), *New Economics and its History*, annual supplement to *History of Political Economy*, Vol. 29, pp. 231-50; 'Frank Knight's Dissent from Progressive Social Science', in Steven Pressman and Richard Holt (eds.), *Economics and its Discontents: Twentieth-century Dissenting Economists* (Cheltenham: Edward Elgar, 1998), pp. 153-64; 'Frank H. Knight (1885-1972): A Bibliography of his Writings', *Research in the History of Economic Thought and Methodology*, Archival Supplement 9 (1999), pp. 1-100.

within specific debates among economists and social scientists, and how participation in those debates altered his viewpoint. Naturally, we cannot avoid some recognition of general differences between groups of economists, and want to associate individuals with the schools they articulate and defend. But when we say that Knight defended economic theory using an 'ideal type' methodology, we are no more labeling him a 'neoclassicist' or 'Austrian'⁶ than we are labeling him an 'institutionalist' when we discuss his argument that a genetic (historical), rather than scientific, method is necessary to explain economic change.⁷

Secondly, Knight's primary concern was the articulation of a *social science* (not only an *economics*) that could resolve the central tensions of modernity. One way of expressing those tensions is in the dual questions: how can scientific knowledge be employed for human betterment in a world of uncertainty where human action maintains its freedom and creativity; and at the same time, how can human action be free and creative when the modern institutions of science, industry and culture constrain us and determine so much of what we do? Science and art, freedom and control, price and value, history and equilibrium, knowledge and judgment - these are the terms in which Knight attempted to work out his response to modernity. But Knight's articulation of a new social science changed over time, depending upon his perception of the key issues of the day, and the resources he found useful. Weber drew his attention both because Weber saw the problems of modern social science in much the same terms that Knight did,⁸ and because Weber offered Knight a different way out of the intellectual morass of American social thought than that being followed by many of his contemporaries.⁹

6. Tony Fu-Lai Yu, 'The Economics of Frank H. Knight: An Austrian Interpretation', *Forum for Social Economics* 31.2 (2002), pp. 1-23.

7. For a recent attempt to identify Knight as an institutionalist, see Geoff Hodgson, 'Frank Knight as Institutional Economist', in Jeff E. Biddle, John B. Davis and Steven G. Medema (eds.), *Economics Broadly Considered: Essays in Honor of Warren J. Samuels* (London: Routledge, 2001), pp. 64-93.

8. See James T. Kloppenberg, *Uncertain Victory: Social Democracy and Progressivism in European and American Thought, 1870-1920* (New York: Oxford University Press, 1986).

9. Richard Boyd 'Frank H. Knight, Talcott Parsons, and Max Weber' (Unpublished MSS, 1997); Claus Nopenney, 'Frank Knight and the Historical School', in Peter Koslowski (ed.), *Methodology of the Social Sciences, Ethics and Economics in the Newer Historical School: From Max Weber and Rickert to Sombart and Rothacker* (Berlin: Springer, 1997), pp. 319-39.

The Paralytic Pluralism of Interwar American Economics

The context for Knight's reading of Weber was the impasse reached during the interwar period in American economics over the appropriate role for both economic theorizing and empirical or institutional study. Standard histories of American economics assume that the central story to be told is the doctrinal history of economic theory, and therefore marginalize elements of the story that may present a more pluralistic picture. American institutionalism, for example, is usually portrayed as a set of aberrant reactions to neoclassicism. But neoclassicism did *not* dominant American economics during the first half of the twentieth century: institutionalism and neoclassicism form 'two parts of the same fascinating explanatory puzzle'.¹⁰

At the centre of the struggle within economics during the interwar years was the question of what it meant to call economics a 'science'. Prior to World War I, the notion that economics was 'scientific' had played a secondary (albeit increasingly active) role in legitimizing the social importance of economic knowledge. In the latter part of the 19th century, economic 'orthodoxy' generally meant the tradition of 'clerical *laissez faire*'¹¹ that stretched back well before the Civil War and was almost inseparable from the traditions of Protestantism and classical liberalism in American moral philosophy. But during the Progressive Era, a new moral perspective arose; one which emphasized social cohesion rather than individualism, and whose adherents, in the name of social unity and equality, challenged the moral authority of classical liberalism and re-fashioned American Protestantism in the

10. Malcolm Rutherford, 'American Institutionalism and the History of Economics', *Journal of the History of Economic Thought* 19 (Fall 1997), p. 192; see also Craufurd D. Goodwin, 'Marginalism moves to the New World', in R.D. Collison Black, A.W. Coats and Craufurd D. Goodwin (eds.), *The Marginal Revolution in Economics* (Durham, NC: Duke University Press, 1973), pp. 285-304; Mary S. Morgan and Malcolm Rutherford (eds.), *From Interwar Pluralism to Postwar Neoclassicism* (Durham, NC: Duke University Press, 1998); Dorothy Ross, *The Origins of American Social Science* (Cambridge: Cambridge University Press, 1991); Malcolm Rutherford, 'American Institutional Economics in the Interwar Period', in Warren J. Samuels, John Davis and Jeff E. Biddle (eds.), *A Companion to the History of Economic Thought* (Oxford: Blackwell, 2003), pp. 260-76 and his 'Institutional Economics: The Term and its Meanings', *Research in the History of Economic Thought and Methodology* Vol. 22A (2004), pp. 179-84; and Yonay, *Struggle*.

11. Henry F. May, *Protestant Churches and Industrial America* (New York: Harper, 1949), p. 14.

manner of the Social Gospel.¹² By the end of the nineteenth century, most American social scientists, including many economists, thought economic orthodoxy irrelevant to the challenges of modern industrial society. The new social science they began to construct, however, depended only secondarily on 'science' in the sense of the application of a rigorous, commonly accepted method. Rather, Progressivist social science rested primarily on the pragmatic assumption that liberal solutions were possible, if adequate attention was spent studying a problem. Only as students of particular problems continued to disagree over solutions did that pragmatic assumption gradually come to require the reassurance that proper methods were being followed. By the early years of the twentieth century, methodological disputes had begun to occupy the attention of many social scientists: they began to identify disciplinary borders, and demarcate the first 'schools' of thought within disciplines. When the Progressive Era ended during World War I, 'science' was sufficiently independent of Progressivism's disintegrating moral framework to emerge as the only (near-)certainty with which to confront modernity's ongoing challenges.

The social sciences, therefore, entered the interwar period with a new commitment to scientific practice, but with no common understanding of what that practice entailed. Vestiges of economic orthodoxy, historicism, pragmatism, marginalism, biological determinism, statistical inquiry, etc. co-existed uneasily with each other and with new approaches that emphasized the role of culture, urbanization, and institutions in the process of social change. In economics, the lack of a common understanding of what it meant to be a science is most often characterized as a debate between 'institutionalists' and 'neo-classicists,' with a spillover into the debate regarding Keynesianism in the late 1930s and early 1940s. Yet the differences among economists of the period were plural, not dual, with the divisions among 'neo-classicists,' 'institutionalists,' or 'Keynesians' often being as pronounced as those between the schools.

For Knight, the inability of American economists to reach agreement over the nature of their social science had paralyzed the discipline. His fear, voiced privately in numerous letters, and publicly in 'The Case for Communism'¹³ and 'Economic Theory and National-

12. Daniel T. Rodgers, 'In Search of Progressivism', *Reviews in American History* 10 (December 1982), pp. 113-32.

13. 'The Case for Communism: from the Standpoint of an Ex-liberal' [1933], in

ism',¹⁴ was that the paralysis within the discipline would lead economists to appeal to the public in support for their various positions, thereby making public opinion the basis for scientific choice. 'Such a contest,' Knight argued, 'must surely result in suicide for social science'.¹⁵ He was on the lookout, therefore, for alternative viewpoints that might transcend the deadlock within the economics discipline (and, by extension, between neoclassicists and other social scientists). In particular, he needed resources that would support the argument he had already developed; namely, that social scientists should reject the polarization of the theory *vs.* institutions debate and accept the necessity of pluralism.

Frank Knight and Max Weber

Although we do not know when Knight first encountered the work of Weber, it was probably before 1920. In the summer of 1913, upon graduation with a combined B.Sc. and M.A. (in German) from the University of Tennessee, Knight visited Germany, courtesy of his father, and returned with an armload of socialist and syndicalist pamphlets, and the desire to complete his studies in Europe. Maria Brouwer¹⁶ suggests that Knight studied with Weber during this trip, but no evidence exists to defend that claim, and indeed it is unlikely that Weber was lecturing in 1913. Apart from attendance at several theological lectures by Wilhelm Hermann at the University of Marburg, the itinerary of the trip remains a mystery.¹⁷ Both Richard Boyd and Alexander Ebner have suggested that Knight would have heard of Weber during the trip, given the interest in Weber's work among German philosophers and social scientists at the time.¹⁸ Surely the neo-Kantians at Marburg would have mentioned him during Knight's visit there?¹⁹

Research in the History of Economic Thought and Methodology, Archival Supplement 2 (1991), pp. 57-108.

14. 'Economic Theory and Nationalism', in *The Ethics of Competition and other Essays* (New York: Harpers, 1935), pp. 277-359.

15. 'Economic Theory and Nationalism', p. 350.

16. Brouwer, 'Weber, Schumpeter and Knight', p. 85.

17. Richard A. Gonce, 'F.H. Knight on Social Philosophy and Economic Theory: the Beginnings', *Research in the History of Economic Thought and Methodology* 14 (1996), p. 5.

18. Richard Boyd, email to the author, 11 September 1996.

19. Alexander Ebner, email to the author, 25 April 2005.

If he did not encounter Weber's work during the 1913 trip, then he probably learned of Weber during his doctoral studies at Cornell after his return, in courses with Alvin Johnson and A.P. Usher,²⁰ or under Allyn Young's supervision of his dissertation.²¹ Usher is mentioned as providing some assistance with Knight's translation of Weber,²² and Young claims credit for starting Knight on the translation in correspondence.²³ The latest point at which Knight would have learned of Weber would be in 1917–19 at the University of Chicago, when he participated in an interdisciplinary study group on Thorstein Veblen's work.²⁴

Regardless when his initial encounter with Weber's work occurred, we do know that by the end of his tenure at the University of Iowa in the late 1920s, Knight had read extensively in the work of the German historical school, including Weber.²⁵ In 1927 he published a translation of Weber's *Wirtschaftsgeschichte* (*General Economic History*) — the first book by Weber to appear in English. A survey of the German historical school followed the next year, in the guise of a review of the third volume of Werner Sombart's *Der moderne Kapitalismus*.²⁶ Knight's respect for Weber is apparent: Sombart is criticized for not following Weber, who, Knight says, is the 'only one who really deals' with the origins of capitalism 'from that angle which alone can yield an answer to such questions, that is, the angle of comparative history in the broad sense'. Knight's move to Chicago in 1928 intensified, rather than abated, his interest in Weber and comparative history, for reasons that will be explained below. Between 1929 and 1932, Knight wrote approximately 25 abstracts of books and articles by German historians for *Social Science Abstracts*, a short-lived (four volumes, 1929–32) attempt to provide North American social scientists with access to the European literature.

20. Nopenney, 'Frank Knight and the Historical School', p. 327.

21. Boyd, 'Frank H. Knight'.

22. Knight in his translation of Max Weber, *General Economic History* (New York: Greenberg, 1927), p. xvi.

23. See letter from Allyn A. Young to Frank H. Knight, 25 February 1927, Frank H. Knight Papers, Box 62, Folder 24.

24. Robin Neill, *A New Theory of Value: The Canadian Economics of H.A. Innis* (Toronto: University of Toronto Press, 1972), p. 28.

25. Nopenney, 'Frank Knight and the Historical School'.

26. 'Historical and Theoretical Issues in the Problem of Modern Capitalism' [1928] in Ross Emmett (ed.), *Selected Essays by Frank H. Knight Vol I* (Chicago: University of Chicago Press, 1999), pp. 133–48.

The choice of *General Economic History* (*GEH*) as the first posthumous English translation of Weber's work bears some comment. Given the methodological focus of Knight's critiques of institutionalism during the 1920s, one might have expected him to translate first some of the essays collected in *Gesammelte Aufsätze zur Wissenschaftslehre*, first published in 1922, or *Wirtschaft und Gesellschaft*, also published in 1921-22. The fact that *GEH* was posthumously compiled from Weber's lecture notes also leads many scholars to categorize it as a lesser work. But *GEH* did provide the only succinct mature formulation of Weber's comparative historical approach, which was Knight's primary interest. As Randall Collins has written, *GEH* provides 'the most comprehensive general theory of the origins of capitalism...yet available... Weber's last theory is not the last word on the subject of the rise of capitalism, but if we are to surpass it, it is the high point from which we ought to build'.²⁷ Knight would have agreed with Collins, and translated the work in order to identify the foundation upon which he would build his own approach to social science.

Knight also continued to pursue the English translation of a greater portion of Weber's work. Shortly after the publication of *GEH*, he apparently began to plan a translation of the three-volume *Gesammelte Aufsätze zur Religionssoziologie*, which includes *Die protestantische Ethik und der Geist des Kapitalismus*, along with most of Weber's other writings on the sociology of religion. Through his colleague Paul Douglas, Knight was put in touch with Talcott Parsons, who also had plans for a translation.²⁸ Although Knight felt strongly that a translation of the complete set of works was in order, Parsons shortly thereafter brought out *The Protestant Ethic and the Spirit of Capitalism*.²⁹ Knight and Parsons maintained a strong friendship throughout the 1930s (for an account of Parsons' side of the friendship, see Camic³⁰ and Boyd,³¹ although their intellectual differences gradually led them apart (their correspondence basically ended in 1940, with a few later letters spaced a decade

27. Randall Collins, 'Weber's Last Theory of Capitalism: A Systematization', *American Sociological Review* 45.6 (1980), pp. 926-27.

28. Talcott Parsons to Paul H. Douglas, 13 November 1927, Talcott Parsons Papers, Harvard University Archives, Pusey Library, HUG (FP) 42.8.2.

29. Parsons, *The Protestant Ethic and the Spirit of Capitalism* (New York: Charles Scribner's Sons, 1930).

30. Charles Camic, 'Introduction: Talcott Parsons before *The Structure of Social Action*', in Camic (ed.), *Talcott Parsons: the Early Essays* (Chicago: University of Chicago Press, 1991), pp. ix-lxix.

31. Boyd, 'Frank H. Knight'.

apart, in 1950 and 1960/61). A recurring theme in the correspondence is both Parsons' and Knight's attempts to publish more of Weber's work. Knight had 'Legal Sociology' ('Rechtssoziologie'), from *Wirtschaft und Gesellschaft*; and 'Roscher and Knies and the Logical Problems of Historical National Economy' ('Roscher und Knies und die logischen Probleme der historischen Nationalökonomie') from *Gesammelte Aufsätze zur Wissenschaftslehre*, translated for potential publication, but nothing came of it.³² Parsons did participate in the publication of other English translations of Weber's work, particularly the first volume of *Wirtschaft und Gesellschaft*, under the title *The Theory of Social and Economic Organization*.³³ After the mid-1930s, Knight's participation in the translation of Weber's work ended. In fact, only a few scattered references to Weber occur in Knight's work after the 1930s. The conclusion of his active interest in Weber studies may account for the unusual comment that Knight made to Arthur Schweitzer in 1968: 'There has been the work of one man whom I have greatly admired. If I were to start out again, I would build upon his ideas. I am referring of course to Max Weber'.³⁴ But as we will see, Knight's reading of Weber during the 1920s and 1930s had an impact on his work throughout the rest of his life.

Knight's Comparative Economic History

Some may find Knight's interest in Weber and comparative history during the 1930s surprising, given that in the same period he published many of his best known works in economic theory – especially his controversial string of articles criticizing Austrian capital theory. But Knight did not return to Chicago in 1928 to teach economic theory. During the 1920s he decided that he was not cut out to be a theorist – admitting to Jacob Viner that his only contribution to theory lay in asking questions and sharpening the definition of key terms.³⁵ His reading of the German historical school, therefore, marked a conscious career move – away from theory toward comparative economic

32. These translations, along with Knight's copies of *Gesammelte Aufsätze zur Wissenschaftslehre*, *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte*, and *Wirtschaft und Gesellschaft*, are available in the Frank H. Knight Papers.

33. Parsons, *The Theory of Social and Economic Organization* (New York: Oxford University Press, 1947).

34. Arthur Schweitzer, 'Frank Knight's Social Economics', *History of Political Economy* 7 (1975), p. 279.

35. Frank H. Knight to Jacob Viner, 9 September 1925, Box 44, Jacob Viner Papers, Public Policy Papers, Seeley G. Mudd Manuscript Library, Princeton University.

history. At Chicago, this career shift was reflected in his teaching load and research interests. Throughout the 1930s and well into the 1940s, courses in the history of economic thought, economics and social policy (eventually taught with philosopher Charner Perry), and historical and institutionalist economics dominate his teaching rotation. He was listed with John U. Nef as the department's teaching staff in economic history and his research seminar in 'Economic Institutions and their History' was devoted to reading Weber's work during the 1930s.³⁶

Economic theory, particularly theoretical controversy, sidetracked his new 'life-work,' however. He complained of this to Parsons:

You may or may not have heard echoes of the fact that I have become more or less involved in controversy in economic theory, the theory of capital and interest in particular. I came to Chicago expecting... 'institutionalism' to be my main field of work. But Viner went to Geneva two different years, leaving me the main course in theory. Even apart from that fact, I had intended all along to finish up the little book on theory that I started for Allyn Young's series about 1924 [NOTE: Knight refers here to a manuscript that builds upon the set of essays which eventually became *The economic organization* (1951)]. Pressure in this direction was further increased when the people organizing the new general social science curriculum for the 'College' here (freshman and sophomore years) decided to use the bulk of the material I had already put in shape and had been using in mimeographed form as auxiliary reading in my own classes. The controversy referred to grew especially out of my growing realization that the treatment of capital and productive factors generally in this material and in all my previous teaching is simply 'wrong'. A year ago I started in seriously to re-work this material, but found myself wrestling with unsolved problems over virtually the whole field of traditional theory. Really, I haven't made very much headway with the whole project, except for getting some of my ideas more or less straightened out, but chiefly finding out how muddled they (and those of the élite in the field generally) really are. Now I am in quite a quandary as to what to do for a life work! A main difficulty is of course the fact that my capacity for work is so terribly limited. An ordinary university teaching program leaves me with little energy to do anything else, in spite of the fact that I make no pretense of doing the reading that I ought to do for my classes.³⁷

36. See Boyd, 'Frank H. Knight'; Edward Shils, 'Some Academics, Mainly in Chicago', *American Scholar* 50 (1981) pp. 179-96; and George J. Stigler, 'Frank Hyneman Knight', in John Eatwell, Murray Milgate and Peter Newman (eds.), *The New Palgrave: a Dictionary of Economics* Vol. 3 (Basingstoke: Macmillan Press), p. 56.

37. Frank H. Knight to Talcott Parsons, 1 May 1936, Talcott Parsons Papers, HUG(FP) 42.8.2 Box 2.

The 'quandary' over his life-work escalated during the years prior to American involvement in the war, but did resolve itself as his involvement in theoretical debate diminished in the 1940s – his last 'theory' articles are published during World War II.

But let us return to the first years of Knight's reappointment at Chicago before moving on to consider his work after the 1930s as part of his new social science. The focus on Knight's initiation of the capital controversy and the re-evaluation of cost theory which emerged from his 'wrestling with unsolved problems over virtually the whole field of traditional theory' has drawn the attention of commentators on Knight's work away from his efforts at constructing a new social science during his early years in Chicago. It turns out that his reading of Weber had an important impact on those efforts.

One of the first articles Knight published after returning to Chicago was 'Statik und Dynamik – zur Frage der Mechanischen Analogie in den Wirtschaftswissenschaften',³⁸ which appeared for the first time in English five years later in *The Ethics of Competition*.³⁹ The central claim of the article was that neoclassical economics was severely limited as a *social science* because the mechanical analogy, and in particular the notion of equilibrium, ignored the most important changes in economic life; those in the 'givens' of theory – resources, knowledge, technology, and ends. Knight argued that these changes were unpredictable by any scientific method, but the processes involved could be understood through a study of the historical evolution of capitalist institutions:

Our general conclusion must be that in the field of economic progress the notion of tendency toward equilibrium is definitely inapplicable to particular elements of growth and, with reference to progress as a unitary process or system of interconnected changes, is of such limited and partial application as to be misleading rather than useful. This view is emphasized by reference to the phenomena covered by the loose term 'institution'. All speculative glimpses at trends in connection with price theory relate to a 'competitive' or 'capitalistic' economic system. But all the human interests and traits involved in this type of economic life are subject to historical change. Moreover, no society is or could be entirely and purely competitive. The roles of the state, of law, and of moral constraint are always important and that of other forms of organization such as voluntary co-operation may be so. Business life in the strictest

38. Translated by Alexander Mahr. *Zeitschrift für Nationalökonomie* Bd. 2 (August 1930), pp. 1-26.

39. 'Statics and Dynamics: Some Queries Regarding the Mechanical Analogy in Economics', in *Selected Essays Vol. 1*, pp. 149-71.

sense never conforms closely to the theoretical behavior of an economic man. Always history is being made; opinions, attitudes, and institutions change, and there is evolution in the nature of capitalism. In fact evolution toward other organization forms as the dominant type begins before capitalism reaches its apogee. Such social evolution is rather beyond the province of the economic theorist, but it is pertinent to call attention to the utter inapplicability to such changes, i.e., to history in the large, of the notion of tendency toward a price equilibrium.

At first glance, this familiar passage sounds quite similar to the methodological perspective Knight developed in *Risk, Uncertainty and Profit* (1921) and in 'The Limitations of Scientific Method in Economics'⁴⁰ which was his contribution to the volume of writings by the younger generation of institutionalists in 1924 – a volume which figures prominently in almost every account of the interwar debates.⁴¹ But it would be a mistake to interpret 'Statik und Dynamik' this way. What has gone little noticed in accounts of Knight's methodology is the introduction in 'Statik und Dynamik' of a different way of understanding the relation between neoclassical theorizing and the 'real economy'. In the earlier work, Knight specifically identified with the method of 'successive approximation' common to economic analysis since at least the time of J.S. Mill: starting with the theory of perfect competition, theorists gradually relax assumptions to incorporate more features of the 'real' economy into their analysis. 'Statik und Dynamik,' on the other hand, assumes a greater bifurcation between the theoretical world and the real world. The model of perfect competition here becomes one of Weber's 'ideal types' – an analytical construct useful for scientific theorizing, but never realized in social life. The construction of 'perfect competition' enables the economist to identify the central elements of economic life, but the study of how those elements change cannot be accomplished in theory. One must turn to history, where the process of change has no resemblance to an equilibrium process. The study of history, for Knight as for Weber, was the study of the pattern of relations created by the interaction of a wide variety of factors.

The difference between historical analysis built upon 'ideal type' theorizing and the method of 'successive approximation' is subtle, yet it had significant implications for the remainder of Knight's theoretical and methodological work. As I have argued elsewhere,⁴²

40. Reprinted in *Selected Essays Vol. 1*.

41. Yonay, *Struggle*; see Tugwell, *The Trend of Economics* (New York: A.A. Knopf, 1924).

42. See my "What is Truth" in *Capital Theory?*.

Knight's contribution to the capital theory controversies depends in part upon the history – theory division that is at the heart of Weber's methodology of social science. The same perspective underlies his rejection of a variety of developments in demand theory during the 1930s and 1940s.⁴³ Later in his life, 'ideal type' analysis becomes his default position in the small forays he made into discussions of labor economics.⁴⁴ His most famous methodological essay, a vituperative attack on the positivism perceived in Terence Hutchison's *The Significance and Basic Postulates of Economic Theory*, is also a forceful defence of 'ideal type' analysis and Weber's notion of *Verstehen*.⁴⁵

'Statik und Dynamik' may have first articulated the methodological basis for Knight's historical turn, but a more complete articulation was necessary. An initial attempt at a comparative history of capitalism was made in 'The Development of Economic Institutions and Ideas', an unpublished essay prepared during the early 1930s for use in his course on 'Economics from an Institutional Standpoint' and also circulated to a number of his friends. But Knight's most complete study of comparative economic history during the 1930s was 'Economic Theory and Nationalism', originally entitled 'Nationalism and Economic Theory: an Essay in Institutional Economics'. Knight compared three alternative institutional frameworks for economic life, and examined the role of social science in both interpreting and changing these frameworks.

'Economic Theory and Nationalism' begins with an examination of economics as an abstract or idealizing study, quite removed from historical changes. 'Economic theory is not a descriptive, or an explanatory, science of reality. Within wide limits, it can be said that historical changes do not affect economic theory at all. It deals with ideal concepts which are probably as universal for rational thought as those of ordinary geometry'.⁴⁶ Comparing economics to medicine, Knight goes on to say that 'a 'science' of human behavior, to be relevant to or practically significant, *must* describe *ideal* and not actual behavior, if it is addressed to free human beings expected to change their own behavior voluntarily as a result of the knowledge im-

43. 'Realism and Relevance in the Theory of Demand' [1944], in Ross B. Emmett (ed.), *Selected Essays by Frank H. Knight*, Vol. 2 (Chicago: University of Chicago Press, 1999), pp. 243-83.

44. 'Economics and Ethics of the Wage Problem' [1951], in *Selected Essays Vol. 2*, pp. 336-60.

45. "'What is Truth" in Economics?' [1940], in *Selected Essays Vol. 1*, pp. 372-99.

46. 'Economic Theory and Nationalism', p. 277.

parted'.⁴⁷ The ideal or abstract nature of economic theory implies that economics deals only with the 'form' of human conduct, not its content: 'economic theory takes men with (a) any wants whatever, (b) any resources whatever, and (c) any system of technology whatever, and develops principles of economic behavior. The validity of its 'laws' does not depend on the actual conditions or data, with respect to any of these three elementary phases of economic action'.⁴⁸

To suggest that the idealized world of economic theory bears similarity with the real world is, for Knight, a mistake. Real people not only possess given wants, but want 'resistance to be overcome in satisfying them'.⁴⁹ At any historical point, the resources provided have a history emerging from the complex interactions of a host of factors, as does the system of technology by which people adapt those resources to their preferences. Thus, history intrudes once we move outside the ideal type. But Knight argues that the unreality of economic theory involves more than the historicity of economic processes; real economic processes are also social. Economic theory's impersonal society is a 'number of Crusoes interacting through the markets exclusively'.⁵⁰ Human society, on the other hand, is personal: peopled with individuals who compete, emulate, manipulate, higggle, and bargain.

Yet the abstractions of economic theory do play a role in real society for Knight, because they provide ideals against which social actions in reality can be compared. To the extent that a society chooses to measure itself against its ideals *and change*, economics may be of social significance because it can point toward the changes that need to be made. Economic theory played such a role in nineteenth century liberal society, because liberalism accepted individualism, and hence rejected proposals for change away from institutions that encouraged economic efficiency. However, liberalism was also not the embodiment of economics' ideals; rather, those ideals stood in opposition to the ideals of the state which previously dominated European social thought.⁵¹

Any story of how real society has changed, therefore, must involve an interplay between social ideals such as those provided by economics, and institutional history. Viewing liberalism as the historical form

47. 'Economic Theory and Nationalism', p. 278, emphasis in original.

48. 'Economic Theory and Nationalism', p. 281.

49. 'Economic Theory and Nationalism', p. 281.

50. 'Economic Theory and Nationalism', p. 282.

51. 'Economic Theory and Nationalism', pp. 285-88.

of social organization that European and North American society was moving away from, Knight goes on in 'Economic Theory and Nationalism' to compare liberalism with fascism (the form that he saw the world moving toward) and collectivism (an alternative which he saw as a form that would not be adopted). The essay ends with Knight's hope that liberalism could be maintained, but only if those who seek truth and those who seek change in social policy can work together; drawing upon both the study of ideal types and comparative institutional history.

Comparative analyses of institutional history continued to occupy Knight's attention during the 1940s and 1950s. Because essays like 'Anthropology and Economics' (1943), 'Socialism: the Nature of the Problem' (1940) and 'The Sickness of Liberal Society' (1946),⁵² to name a few whose titles will provide obvious clues to readers of this paper, have traditionally been catalogued as 'social philosophy' rather than comparative social science, the continuity of Knight's later work with his comparative historical turn in the late 1920s has been overlooked. The example of 'Anthropology and Economics' is particularly interesting, because the comparison takes him some distance away from the familiar ground of the debate between capitalism and socialism and his own ruminations over the state of liberalism. A review of Melville Herskovits' *The Economic Life of Primitive Peoples*, this essay brings together Knight's appreciation for Weber's 'ideal type' analysis with his interest in comparing forms of economic organization in different societies. Agreeing with Herskovits (and Weber) that a legitimate distinction between market and non-market societies exists, he nevertheless disagrees with Herskovits' conclusion that economists *qua* scientists should abandon their idealized study of market operation in favour of detailed studies of markets in specific cultural settings. If one reads this essay in isolation from his other essays of the 1940s, one is immediately reminded of an essay from 1924, 'The Limitations of Scientific Method in Economics' – his early attack on most brands of American institutionalism.⁵³ Yet the other essays mentioned above reveal his own concern with the relation between culture and economic development. The review of Herskovits can then be seen less as a defence of neoclassicism than as a defence of 'ideal type' analysis. In this sense, the reviews of Hutchison and Herskovits are simply flip sides of the same defence.

52. All reprinted in *Selected Essays*.

53. Reprinted in *Selected Essays Vol. 1*.

Finally, we can briefly examine one of the areas in which Knight's comparative approach most obviously touches on themes developed by Weber – the relation of religion and capitalism. In his review of Sombart, Knight summarized the literature regarding the Weber thesis, arguing that Lujo Brentano's argument about the relation between war and trade is more relevant to understanding the origins of capitalism than Weber's linkage with Protestantism. As any scholar familiar with Knight knows, the relation between religion and economic organization occupied his attention throughout his life. One of the most important of his reflections on the topic is his collaboration with Thornton Merriam in *The Economic Order and Religion*.⁵⁴ In preparation for his half of the book, Knight wrote, and re-wrote, a history of the relation between religion and economic organization which both assessed (negatively) the impact of religion on the history of liberalism, and expanded upon his critique of Weber's argument regarding the role of religion in economic development.⁵⁵ Most of that history did not end up in the book (an abridged version of the history appears in Knight's first chapter). The core of his argument in this history and elsewhere is well-expressed in the minutes of a faculty seminar in 'Economic Development and Cultural Change' on March 11, 1952:

Mr. Knight urged that an examination of the origins of European capitalism was relevant to a discussion of economic development, and in particular called attention to Sombart's concept of the 'spirit' of capitalism as the analytical essence of the problem. Contrasted with Weber's emphasis on the religious side of the problem, Mr. Knight believed that the change in the *Weltanschauung* of the Western world – the essence of which was ambition and curiosity, the acceptance of competitive, cumulative self-assertion as a worthy aspect of human personality – was the great cultural revolution of all history.⁵⁶

Because Knight interpreted religion as an opponent of ambition, curiosity, and self-assertion, his history emphasized the constraints that

54. Frank H. Knight and Thornton Merriam, *The Economic Order and Religion* (New York: Harper, 1945).

55. Various drafts of this material exist in the Frank H. Knight Papers; see my 'Frank H. Knight (1885–1972): A bibliography of his writings', and 'Frank Hyneman Knight Papers 1910–1972: Finding Guide', *Research in the History of Economic Thought and Methodology*, Archival Supplement 9 (1999), pp. 101–273.

56. Discussion of 'The role of ideologies in economic development', Minutes of the Faculty Seminar in Economic Development and Cultural Change, sponsored by the University of Chicago Research Center in Economic Development and Cultural Change, 11 March 1952. On back of draft in Frank H. Knight Papers, Box 24 Folder 24.

religion constantly placed on the *Geist des Kapitalismus*. Yet his disagreement with Weber is over the role of religion in the development of capitalism, not with the assumption that a comparative historical study of economic history would be relevant to the study of contemporary economic development. Near the end of his life, Knight broadened his reflections on the historical relations of Christianity and market societies through comparison with the possible relation between the market and religion in cultures based on Eastern religious traditions, in 'Philosophy and Social Institutions in the West' (1962).⁵⁷

*The Marginalization of Institutionalism
and Comparative Economic History*

Despite Knight's ongoing work in comparative history, the immediate context in which he originally turned to Weber's work came to an end with the Second World War. As several recent histories of American economics make clear, the pluralism of the interwar years was resolved in the postwar period by the emergence of a new scientific standard for economics. Whether one describes the new standard as neoclassicism, the neoclassical synthesis, or mathematical economics, postwar economics possessed a unity that the discipline lacked during the interwar period. Most importantly for our purposes, the new standard redefined 'economics' and 'science' in ways that pushed most of the participants in the interwar debates to the margins of the economics discipline.⁵⁸

Knight's relation to this new standard is complicated. Partly through his efforts, Chicago economics came to represent one form of the new economics. While he did not play a role in the development of the workshops in which much of postwar Chicago economics was forged, Knight had been instrumental in defining the core requirements of graduate study during the 1930s and 1940s. He also continued to teach the mandatory Economics 301 (Price and Distribution Theory) that elaborated the core of neoclassical theory throughout the 1940s and 1950s (he taught the course for the last time in the summer of 1956). Chicago's emphasis on theoretical competence and innovative application bred a school of economists who came to dominate American postwar economics.⁵⁹

57. Reprinted in *Selected Essays*.

58. See Morgan and Rutherford, *From Interwar Pluralism*, and Yonay, *Struggle*.

59. See my 'Entrenching Disciplinary Competence: the Role of General Education

One could argue that the 'ideal type' understanding of economic theory that Knight took from Weber helped keep the focus of his economic theory relatively narrow. If economic theory simply amplifies the assumptions:

that every rational and competent mind knows (a) that some behavior involves the apportionment or allocation of means limited in supply among alternative modes of use in realizing ends; (b) that given modes of apportionment achieve in different 'degrees' for any subject some general end which is a common denominator of comparison; and (c) that there is some one 'ideal' apportionment which would achieve the general end in a 'maximum' degree, conditioned by the quantity of means available to the subject and the terms of allocation presented by the facts of his given situation...⁶⁰

then the core of economics remains the theory of perfect competition. If all efforts to explain economic change through a scientific theory are doomed to failure,⁶¹ then most of the theoretical innovations of the postwar era were predetermined to be ineffective, and Knight's comparative historical approach was a necessary complement to the theoretical orientation of Chicago economics. Of course, few of his colleagues, even at Chicago, accepted Knight's perspective.

Although he taught theory, comparative history continued to be the focus of Knight's own work for the remainder of his career. The themes sketched in the previous section were not secondary to his scientific work, but rather comprised the work he set out for himself as a social scientist. Inevitably, the narrowing of the disciplinary focus within economics, and Knight's continued work in comparative history, meant that Knight was gradually marginalized by the discipline. During the 1940s, economists labelled his work 'social philosophy'.⁶² The reader, of course, is supposed to recognize that 'social philosophy' is not 'economics,' and therefore assume that the majority of Knight's work is addressed to some audience other than economists. Knight's own actions in the 1930s and 1940s provide support for this treatment of his work. He was cross-appointed in the Philosophy department at the University of Chicago in the early 1940s, and helped initiate the Committee on Social Thought, which provided an aca-

and Graduate Study in Chicago Economics', in Morgan and Rutherford (eds.), *From interwar pluralism*, pp. 134-50.

60. "'What is truth" in economics?'

61. 'Statik und Dynamik' (1930).

62. See the subtitle of his *Freedom and Reform: Essays in Economics and Social philosophy* (New York: Harper & Bros., 1947).

demic haven for those disenchanted with the entrenchment of disciplinary boundaries during the postwar era. Yet he retained the hope (albeit with some scepticism) that a social science capable of providing direction for intelligent social action could emerge that would integrate economic theory with the study of law and politics, the history of capitalist institutions, and ethical reflection.⁶³

63. Knight, *Intelligence and Democratic Action* (Cambridge: Harvard University Press, 1960).

