

# Reconsidering Frank Knight as an American Institutional

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## Área 1 - História do Pensamento Econômico e Metodologia

**Resumo:** No início do século XXI, Geoffrey Hodgson apresentou uma controvérsia sobre Frank Knight. Hodgson afirmou que, apesar da falta de apoio historiográfico, Knight foi um institucionalista americano. De acordo com Hodgson, as críticas de Knight à utilidade, preferências dadas, possibilidades tecnológicas fixas e individualismo metodológico seriam suficiente para classificar Knight como um institucionalista. O objetivo desse artigo é investigar a classificação controversa apresentada por Hodgson. Para tal é realizado um estudo tanto da perspectiva do Knight quanto dos Institucionalistas sobre utilidade, preferências e tecnologia. O artigo conclui que o Knight e o Institucionalismo americano possuem uma conexão ténue, na melhor das hipóteses.

**Palavras-chave:** Frank Knight, Institucionalismo Americano

**Classificação JEL:** B31; B25

**Abstract:** At the beginning of the 21st century, Geoffrey Hodgson put out a controversial assertion about Frank Knight. He wrote that, despite lack of historiographic support, he saw Knight as an American Institutional. He asserted that Knight's criticisms of utility, given preferences, fixed technological possibilities, and methodological individualism made him fit into the Institutional frame. This paper aims to investigate Hodgson's claims, and through an evaluation of Knight's and Institutionalists' perspective on utility, preferences, and technology, determine if it is indeed accurate to call Knight an Institutional. The paper concludes ultimately that Knight and the American Institutional have a tenuous connection, at best.

**Keywords:** Frank Knight, American Institutionalism

**JEL classification codes:** B31; B25

## Introduction

At the beginning of the 21st century, the British institutionalist Geoffrey Hodgson provocatively associated Frank Knight with American institutionalism<sup>1</sup> (Hodgson 2001, 2004). Additionally, for Hodgson, “[Knight] was also one of the greatest of all institutionalist after Veblen” (Hodgson 2004: 344). Hodgson’s perspective prompted a reaction among historians of economic thought. The most prominent response was Pier Francesco Asso and Luca Fiorito’s “Was Frank Knight an Institutionalist?” (2008).

In this critical analysis of Hodgson and Knight, Asso and Fiorito (2008) argues against the idea of Knight as an American institutionalist demonstrating that he rejected both the institutionalist approaches of instinct and behaviourism and empiricism adopted by some institutionalists. Malcolm Rutherford in his *“The Institutional Movement in American Economics”* (2011) also comments on Hodgson (2004). Rutherford (2011: Chapter 5) shows that when Knight returned to the University of Chicago in 1927, he was expected to teach Institutional Economics. Rutherford stresses that while Knight was extremely familiar with institutional economics and was a personal friend of Clarence Ayres, he strongly criticized its reliance on its “scientism”.

Yet, while Hodgson’s classification of Knight is not shared other historiographers, they too point out that Knight took the role of institutions very seriously, influenced heavily by Max Weber on this theme (Asso and Fiorito 2008; Emmett 2009, 2013; Rutherford, 2011; Schweitzer, 1975). This paper attempts to offer a new analysis of Hodgson’s interpretation of Knight. Specifically, it focuses on comparing Knight’s perspective on utility, preference, and technology with that of

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<sup>1</sup> The exact words of Hodgson (2004: 323) are: “[t]he main purposes of this chapter are to situate Knight in the broad tradition of American institutional economics [...]”

American Institutionalists to assess whether they are connected, as Hodgson asserts (2004).

In this paper, we analyse Knight's winter 1937 course at the University of Chicago, Economics 305: Economics from an Institutional Standpoint, using content mailed to Clarence Ayres (16 February 1937, Clarence Ayres Papers, Box 3F290). This course provides insight into Knight's perspective on Institutional Economics. To deepen our analysis of this course, we also consider Ayres's reaction to Knight's teachings, documented in a written correspondence between the two (Ayres to Knight, 23 February 1937, Clarence Ayres Papers, Box 3F290).

This paper unfolds in three more sections. In the next section, we compare Knight's perspective on utility theory with the Institutional standpoint. After that, we will use Hodgson's (2004) item entitled "taste and technology as variable" to evaluate Knight's and the Institutional viewpoints on given wants and technological possibilities. Some final comments closes our paper. We conclude that the connection between Knight and American Institutionalists is weak.

### **Utilitarianism and Newtonianism**

Item 1 of Knight's Economics 305—Economics from an Institutional Standpoint, 1937 version, was called "The Institutional Movement." Sub Item 1.2, entitled "Readings from Veblen, 'father' of the movement" was a collection of eight essays from "The Place of Science in Modern Civilization" (Veblen 1919) and "Economic Theory in the Calculable Future" (Veblen 1925). These essays can be understood as Veblen's comments and criticisms on the evolution of key ideas in economics. Ayres did not respond positively to sub item 1.2. For Ayres, "[...] I have

always found Veblen's controversial articles quite unsatisfactory. They attack; they stigmatize; they express impatience with the whole conceptual system of economics orthodoxy; but they give little or no clue to what other concepts Veblen lay down as fundamental [...]" (Ayres to Knight, 23 February 1937, Clarence Ayres Papers, Box 3F290).

Despite Ayres's criticism, sub item 1.2 is relevant to our paper since it shows that Knight considered "Veblen's controversial articles" important to understand the Institutional Movement. In the following passages, we will compare Veblen's perspective, from papers from sub item 1.2, on utilitarianism with Knight's, looking for "connection by criticism" made by Hodgson. Their brief comments on classical economics shows the divergence in Veblen and Knight's thinking on the rise of utilitarianism in economics.

Knight (2013) strongly criticises classical economics (2013: 129): "[i]t is essentially a policy, not a theory in any other sense than a theory of policy"<sup>2</sup>. According to Knight (2013), classical economics stood for a "line of policy," and for criticizing policies understood as wrong, instead of an analysis of economic life or the current system of economic relations. Initially, classical economists defended no policy but the one protecting property, and later become apologetic of *laissez-faire*. According to Knight (2013: 130): "Hume and Adam Smith gave the first analysis to be taken seriously in the way of a mechanical-utilitarian explanation".

Despite minor similarities, Veblen's perspective on classical economics is quite different from Knight's. Like Knight, Veblen (1899a) also affirmed that classical economics focused on elements of policy, but for Veblen, this was more than simply

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<sup>2</sup> Clearly, Knight (2013) is a posthumously published paper. Although it is not possible to know exactly when the paper was written, according to Emmett (2013), it was possibly during Knight's transition from the University of Iowa to the University of Chicago. Additionally, as Knight (2013) quotes F. H. Allport's "The Nature of Institutions" published in 1927, it must have been written after 1927 (Emmett 2013).

standing for a “line of policy”. Veblen did not criticise classical economics in a general sense; in fact, he introduced no criticism to Smith and Malthus. In Veblen’s words (1899b: 130): “[a]fter Adam Smith’s day, economics fell into profane hands [...] [a]part from Malthus, who, of all the greater economists, stands nearest to Adam Smith [...]”. Unlike Knight (2013), Veblen (1899b) does not strongly associate Smith with utilitarianism. In Veblen’s words (1899b: 130–131): “[t]here is no wide breach between Adam Smith and the utilitarians [...] Adam Smith might well be classed as a moderate utilitarian [...] Malthus has still a more of a utilitarian air [...]”. Veblen’s key criticism of classical economics was regarding the adoption of Benthamism and then hard utilitarianism<sup>3</sup>. Hence, Knight and Veblen differ on when and how the utilitarian approach arose in economics. As we will discuss in the following passages, while they both critiqued what utilitarianism meant for economics, they did so for different reasons and to different ends.

We begin with an analysis of Knight’s perspective and critiques on utilitarianism. For Knight (2013), the adoption of a utility theory shifted economics away from policies and propagandas to the realm of pure science. Yet, he still had significant critiques of a more scientific approach. Knight (2013; 135) stresses that in the effort to make the field of economics more scientific, the attention was focused on “the most abstract aspect of the material, the mere mathematical relations of prices”. For Knight (1935a: 154): “[...] prices are no more determined by psychological utilities than psychological disutilities [...] Price is determined by cost rather than utility but by

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<sup>3</sup> For Veblen, classical economics became associated with utilitarianism in the 19th century. In Veblen’s words (1909: 232): “[...] the marginal-utility school is substantially at one with the classical economics of the nineteenth century, the difference between the two being that the former is confined within narrower limits and sticks more consistently to its teleological premises. Both are teleological, and neither can consistently admit arguments from cause to effect in the formulation of their main articles of theory. Neither can deal theoretically with phenomena of change, but at the most only with rational adjustment to change which may be supposed to have supervened.” For Veblen (1909), both schools take as starting point the traditional psychology of the hedonists of the early nineteenth century.

cost in a physical, technical sense, not that of pain or sacrifice.” Knight (2013: 135) reinforces this point by affirming that utility theorists “weakened the appeal to human interests,” making it “quite unnecessary” to provide a scientific perspective to economics<sup>4</sup>.

Knight (1935a) also criticizes the role of utility principle as the basis of the process of adjustment in the analysis of cost. Knight affirmed that some resources may be free and transferable, but others may not, and the scale of production matters for transference capacity.<sup>5</sup>

Knight (1935a) stresses that while utility theorists contributed to distributions approach, they formulated a confused general principle. Knight (1935a; 156) affirms that “[i]t is true that the distributive shares are simply the values of the productive services and that these are derived from product values.” In offering an explanation relying on just utility, “[...] the values of the cost goods may be said to reflect the relative utilities of the products, but the general situation is rather that ultimately all the productive resources cooperate in making each product. Hence the relative ‘utilities’ of

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<sup>4</sup> Knight was critical of utility theorists for their lack of attention to the role of human beings in economics. According to Knight (1935b: 1), when economics deals with human beings, its fundamental problems is based on the relationship between “man and his world”. Concerning utilitarianism, Knight (1935a: 159) highlights that “[t]he notion of increments of satisfaction undoubtedly implies that the value of life as a whole is some definite increasing function of the quantities of the various means of satisfactions available *which hardly agrees with common sense*” (emphasis added). Moreover, “[...] the utility description of behaviour as an affair of comparing and choosing is valid only in so far as men compare and choose; no one in his senses has thought of it as the exclusive form of all activity in all historic time.” (Knight 1935a: 159).

<sup>5</sup> Knight (1935a: 155) stresses that given a long time for readjustment, which includes changes of forms of capital, retraining of workers (in such case, Knight affirmed that law of constant cost would be applicable), utility can determine the quantities produced but not the equilibrium price. More specifically, in Knight’s words (1935a: 155): “[...] the factors of production are hardly transferable instantly in any degree; for a very short period the condition approximates that of fixed supply. In so far as this is the case, price is determined by the relative utilities of the supplies as they stand, cost exerting no influence at all. Problems actually encountered fall between these two limits; the longer the period over which one looks ahead, the greater the extent to which prices at the end of it will correspond to physical cost conditions and the less the role of utility. For ordinary producers’ calculations the role of cost is certainly far the greater, but the actual quoted price at any moment, the price at which consumers buy from dealers, reflects rather the demand conditions, supply being ‘given’. The influence of relative utility as compared with that of relative cost depends on the comparative elasticities of the two curves. In the short run, supply is highly inelastic and demand conditions predominate; in the long run, supply generally has practically infinite elasticity and predominates over demand, the latter being always of intermediate elasticity.”

units of different resource depend on the relative physical quantities which they respectively contribute to each product” (Knight 1935a; 156).

Additionally, utility theorists gave attention to demand—which was taken for granted by the Ricardians. However, for Knight (1935a: 158), “the importance of its contribution cannot be overestimated” as demand has ever being recognized as a driving force of economic activity, “although generally physical cost relations exercise a much greater control over the superficial fact of exchange ratios”.<sup>6</sup>

For Knight (1935a: 158), utilitarianism reflects “the eighteenth-century craving for a principle” of human behaviour and social organization next to Newton’s mechanics.<sup>7</sup> As stated by Knight (1935b: 1-2): “[f]rom a *rigorously* scientific viewpoint, life is a matter of mechanics” [emphasis in the original]. In economics, this approach introduced “simplicity and order” and made it possible to analyse problems through mathematical functions and methods of infinitesimal calculus (Knight 1935a: 158).

For Knight (1935a and 1935b), economics was dealing with concepts and theoretical development by relying on analogies with theoretical mechanics, which he found to be problematic at times. For example, according to Knight (1935c: 149), economics studies were using the terms “static” and “dynamic” despite a clear definition or distinction of those concepts as it related to economics, generating confusion as those terms have a definite meaning in mechanics “unrelated to the main issue in economics” (1935b: 33-34).

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<sup>6</sup> Moreover, according to Knight (1935a: 158), it is claimed that “utility theory carries the analysis of demand beyond the surface facts of quantity and price, that it ‘explains’ demand”. For Knight (1935a: 158), “it is in fact a favourite point of attack for the enemies of abstract theoretical economics as such.”

<sup>7</sup> Knight (1935c: 150) uses the term “older Newtonian mechanics”. Knight (1935c: 150) argues that since Newton, the objectification of force gave room for metaphysical and unreal notions—yet engineers still using the old concepts.

Further, Knight (1935c) highlights that the notions of force and *equilibrium* are also used as analogies between economics and mechanics, but notes that in economics, the notion of force is problematic because of its association with psychology. Economists biased to materialistic approach and behavioristic psychology would have some difficulty in being consistent while discussing forces and equilibrium. The result is a lack of focus on wants, sacrifices, and satisfaction to exclusively deal with commodities and prices (Knight, 1935c: 150).<sup>8</sup> Knight (1935c: 150) argues that this is what a great number of economists did during his time, and as a result were restricted to statistical trends and correlations. Their interest in and reliance on these metaphors caused them to focus on statistical models and on their mathematical limits in a different manner from the sense in which “equilibrium”, “tendency”, and “forces” are generally used (Knight, 1935c: 151).

Knight (1935c: 151) adds that the mechanical equilibrium is a mutual cancelation of forces culminating in rest, but in economics, equilibrium means no economic processes are induced. For Knight (1935b: 34), focusing on the possibility and condition of equilibrium culminated in the study of the laws of economic changes neglected. According to Knight (1935b: 33–34), a key issue is “whether the forces acting under given conditions tend to produce an equilibrium, and if so how and if not

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<sup>8</sup> For Knight (1935c), in such an approach between economics and a Newtonian theoretical mechanics, the role of conscious deliberation and effort become automatic responses. For Knight, economics does not deal with this issue in a complete sense, [...] “it accepts deliberation regarding means as real, but treats end as given in the situation and argues that deliberation regarding ends (which common sense accepted without question) is ‘really’ deliberation regarding means.” (Knight [1935c: 152]) Another issue regarding the approach between economics and mechanics is the lack of a clear definition of what “force” is in human behaviour. It could be conscious interests, some kind of “real advantage” (biological, hedonistic, aesthetical, or ethical) or merely simple situations of the organism (Knight 1935c). Knight (1935b), in a general perspective of utility theorists, affirms that there is an economics that “[...] reaches law as universal as those of mathematical and mechanics [...] There are no laws regarding the *content* of economic behaviour, but there are laws universally valid as to its *form*” [emphasis in the original]. The core issue, for Knight (1935b: 1), is how far life problems can be reduced to the form of using given means to achieve given ends. Regarding the analysis of human beings’ decision-making, it is important to address that Knight was highly critical of how economics was appropriating behaviourism from psychology (Knight 1935b: specially section III; see also Asso and Fiorito 2015).

what is their tendency; that is, it is a problem in dynamics.” For Knight (1935b: 33), it was “a fatal gap in the science.” Hence, the “crying need of economics theory” was the study of the “‘laws of motion’, the *kinetics* of economics changes” [emphasis in the original] (Knight 1935b: 33). Knight (1935a: 160): “[...] the advocates of a purely statistical science do not seem to realize that economics, if it is to have any relation to human problems of means and ends, must be concerned with goods and services not in themselves, but as representing values or sacrifices.”

With Knight’s perspective outlined, we then analysed Veblen’s thoughts on utilitarianism. Both Knight and Veblen see the limits of utilitarianism, and have critiqued this approach. Veblen (1909: 234) introduces criticism of hedonism, focusing on the limits of its psychological approach. For Veblen (1909: 231), the utilitarian approach in economics is just a matter of distribution analysis. Veblen (1908 and 1909) stressed that attempts are often made to extend the use of the principles of utility beyond the distributive field—as well as to apply it to questions involving production and consumption. However, those attempts took place in the distributive field—such as the distribution of goods in the case of consumption. Regarding distribution, Veblen’s (1908) perspective on price aligns closely with Knight’s.

However, different from Knight, Veblen proposed that economics should change its theoretical perspective. Veblen, as well as Knight, criticized the static feature of utilitarianism. We may affirm that Knight’s and Veblen’s comments are similar, but the first was more rigorous in his criticism and the latter introduces his critics in order to offer another theoretical approach. For Veblen (1909), utilitarianism does not introduce any kind of change or movement in the economic system, hence growth, sequence, and process are not taking into consideration. As stated by Veblen, “natural rights”, “natural

order” and “natural laws” give to the utilitarianism perspective a definitive normality in economics (Veblen 1898 and 1908).

Differences in Knight’s and Veblen’s perspectives rely on how limits of utilitarianism should be removed. As previously discussed, Knight saw utility theory as the introduction of a scientific approach in economics when the classical theory lacked a scientific foundation. While Knight took issue with the ill-defined analogies used to connect Newtonian mechanics to economics, Veblen had a different criticism: according to him, utilitarianism’s hedonism and static approach were a result of taking for granted or even denying cultural and institutional elements (Veblen 1909: 233).

Veblen (1909) offers his institutional approach as an alternative to the limits of utilitarianism, suggesting that the institutional perspective integrated modern science<sup>9</sup>. His criticism focuses on why analysing society’s pecuniary institutions and habits is a better approach than focusing on hedonistic tendencies. He critiques classical economics and utilitarianism, then, as a means of introducing his own perspective: an economic process involving institutions, habits, and cumulative changes.

For Veblen (1898), economics was stuck in preconceptions of the past and needed to become a modern science. According to him, a modern science would be an evolutionary science, meaning that it would involve a notion of cumulative causation.

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<sup>9</sup> For example, about the role given to price and price system by the utilitarianism, Veblen wrote (1909: 247): “[i]t is the institution of property that gives rise to these habitual grounds of discrimination, and in modern times, when wealth is counted in terms of money, it is in terms of money value that these tests and standards of pecuniary excellence are applied. This much will be admitted. Pecuniary institutions induce pecuniary habits of thought that affect men’s discrimination outside of pecuniary matters; but the hedonistic interpretation alleges that such pecuniary habits of thought do not affect men’s discrimination in pecuniary matters. Although the institution scheme of the price system visibly dominates the modern community’s thinking in matters that lie outside the economic interest, the hedonistic economists insist, in effect, that this institutional scheme must be accounted of no effect within that range of activity to which it owes its genesis, growth, and persistence. The phenomena of business, which are peculiarly and uniformly phenomena of price, are in the scheme of the hedonistic theory reduced to non-pecuniary hedonistic terms and the theoretical formulation is carried out as if pecuniary conceptions had no force within the traffic in which such conceptions originate. It is admitted that preoccupation with commercial interests had ‘commercialised’ the resto of modern life, but the “commercialization” of commerce is not admitted.”

Veblen (1898) relates his notion of modern science with a framework of a sequential analysis of cause and effect, by virtue of their cumulative character.

In short, while Knight and Veblen both critiqued utilitarianism, they did so to different ends. Knight saw in utilitarianism the inauguration of a scientific economics. On the contrary, Veblen saw the opposite: preconceptions of the scientific approach in economics. While Knight's and Veblen's criticism on hedonism and mechanics in the utilitarianism are similar, Knight was more rigorous in his analysis than Veblen. Knight suggested that utilitarianism should evolve in order to deal with laws of motion, while Veblen wanted economics to break with the mechanics approach altogether and move toward an evolutionary approach, which he understood as a modern science. Given this analysis, it is clear that there were significantly more differences in Veblen and Knight's respective criticisms than there were similarities. This goes against Hodgson's assertion that Knight was an institutionalist. Moreover, Knight did not reject mechanics analogies in economics as a scientific principle, as Veblen did. Knight rejected the analogies economics as dealing with<sup>10</sup>.

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<sup>10</sup> Among the essays of "The Place of Science in Modern Civilization" (Veblen 1919) which was part Sub item 1.2 of Knight's Economics 305, we can find "Gustav Schmoller's Economics" (Veblen 1901). Veblen (1901: 255) characterized Schmoller as "the best accepted and most authoritative spokesman of that branch of historical economics which professes to cultivate theoretical inquiry." For Veblen (1901), Schmoller is the exponent of the modern version of the school. For Veblen (1901), Schmoller did not refuse the importance of empirical generalization, common procedure in the early historical economists' writings, indeed he adopted this generalization a plenty of times. Preliminary to offering a theoretical explanation, Schmoller relied on "exhaustive historical scrutiny" in order to formulate laws of causation (Veblen 1901: 263-264). For Veblen (1901), Schmoller's point was to discover laws of causation instead of observable historical uniformities of an economic phenomenon. According to Veblen (1901: 264), Schmoller's methodology was "Darwinian rather than Hegelian [...]" The fact that Knight's Economics 305 relied on Veblen's perspective on Schmoller could be quite interesting for this paper proposal. As it is known by historiography that German historical school—mainly Max Weber—was an influence on Knight (see Brouwer 2002, Emmett 2009: Chapter 9, and Noppeney 1997). However, Knight relied little on Schmoller's writings to allow a comparison with Veblen's perspective. Furthermore, according to Noppeney (1997), Knight's reading of members of the German historical school, even considering the new, or second, generation, is not consistent or unambiguous. The key Knight's comments on Schmoller regards a defence from Lionel Robbins's attack on German historical school associating Schmoller with "degrading mystique of historicism". Knight criticized the generalization of historical facts in universal laws, however he mentioned Karl Bücher—another member of the new, or generation of German historicists—and not Schmoller in his comments (Noppeney 1997: 324).

## **More issues on Hodgson's "Tastes and Technology as variable"**

Hodgson continued his attempts to position Knight as an institutionalist in a section entitled "Tastes and Technology as Variable" in the chapter "The Maverick Institutionalism of Frank Knight" in his 2004 book. While Hodgson tries to demonstrate how Knight was influenced by American Institutionalists on the topics of malleability of wants and the institutional approach to cumulative causation, our paper highlights the flaws in his assertions.<sup>11</sup>

To this end, we will offer insights based on Ayres's reaction to Knight's *Economics* 305, 1937 version. Ayres's reaction fell into three categories: (1) the meaning of the Institutionalism movement; (2) the lack of Veblen's propositional writings; and (3) a discussion about technology. Because this paper is not about the meaning of the movement, we will focus more on the latter two points<sup>12</sup>. Regarding Veblen's writing, Ayres suggested Knight to insert Veblen's "The Theory of Business Enterprise" (Veblen 1906) and parts of "The Instinct of Workmanship and the State of the Industrial arts" (Veblen 1914) and "The Theory of the Leisure Class" (Veblen 1899c).

It is evident from Veblen's writings (1899c, 1906 and 1914) that he believed that consumer thoughts and behaviour is a markedly interdisciplinary topic, dealing with psychological, philosophical, and socio-economic issues. In this regard, it is similar to Knight's perspective, as he understood that "[w]ants are in the providence of

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<sup>11</sup> In Hodgson's words: "Knight regarded the neoclassical assumption of given preferences functions and technological possibilities inadequate. Concerning the malleability of wants, Knight (1922, pp. 457-8) accepted the influence of John Maurice Clark, Walton Hamilton and Thorstein Veblen" (Hodgson 2004: 328) and "[i]n analyzing, long-period change, Knight (1924, pp. 264) saw the role of 'institutional' economics, [as] studying 'the cumulative changes of institutions'. He saw the value of this approach as lying in its capacity 'to predict long-period changes in the factors that applied economics accepts as data'" (Hodgson 2004: 329).

<sup>12</sup> About the meaning of Institutionalism movement, Ayres's perspective is the same as the historiographical: American institutionalism was not associated with a clear paradigm and was based on loosely related research programmes among its members (see Fiorito 2012 and Rutherford 2011).

psychology, sociology, and ethics [...]” (Knight 1935b: 33). Veblen’s (1899c) approach to a culturally grounded consumer’s behaviour is derived from a historical process based on the dynamics offered by instincts, habits, and institutions that culminate in an emulative conduct. Veblen’s instinct-habit approach was influenced by the American Pragmatic School of Philosophy, mainly by John Dewey (see Hodgson 1998, Tilman 2007, and Twomey 1998).

Yet, despite the immediate similarities, once again, there is evidence that indicates that Veblen’s perspective did not influence Knight’s too significantly. There are two pieces of evidence that specifically stand out. First, “The Theory of the Leisure Class” (Veblen 1899c) was not a reading of Knight’s Economics 305—as Ayres pointed out. As F. Taylor Ostrander’s notes of Knight’s course pointed out, Knight did mention “The Theory of the Leisure Class” in the classroom, but he chose not to include it as a reading for his course (Samuels 2005).<sup>13</sup> If Veblen’s perspective of wants had a strong influence on Knight, he would have positioned it more prominently in his course. Second, the relationship between Knight and the American Pragmatic School of Philosophy is controversial; Knight was critical of Dewey (see Hands 2006 and Emmett 1999). Hence, we can affirm that both Knight and Veblen stand for dealing with how wants are constituted. Despite this, there is insufficient evidence to agree with Hodgson’s position that Knight was influenced by Veblen’s perspective on how wants are culturally developed.

On the matter of technology, there are further flaws in Hodgson’s assertion that Knight aligned with the Institutionalist perspective. Despite the fact that Hodgson (2004) uses the term “technology” in the title of the section, it contains little mention of

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<sup>13</sup> F. Taylor Ostrander received a British-endowed Henry Fellowship for graduate study of economics at Oxford University, 1932–1933. Thereafter, Taylor Ostrander took his doctoral study in economics at the University of Chicago, 1933–1934 (Taylor Ostrander 2009). Hence, Taylor Ostrander’s notes mentioned above are from a previous version of Knight’s course than the one in Ayres’s archives.

technology. A possible explanation is that American institutionalists—especially Veblenians—usually associated technology with the institutional and cumulative changes (see Rutherford 1984). Hence, Hodgson (2004) may have assumed that discussion about cumulative change cover discussion about technology—which may be the case for American institutionalists. In his reaction, Ayres wrote: “[...] the technological theory of economic progress seems to me somewhere near to the initial postulate of ‘Institutionalism’ as Veblen developed it [...] Consequently, I should open the exposition of ‘Institutionalism’ principles with the theory of technology. But I should certainly not rest the whole burden of the argument on Veblen” (Ayres to Knight, 23 February 1937, Clarence Ayres Papers, Box 3F290).

In Knight’s *Economics* 305, in “IV. The Institutional View of Economic Life”, there is a sub item “3. Technology”. The readings of this sub item were authored by a range of individuals—the economic historian Abbott Payson Usher, the electrical engineer Arthur Percy Morris Fleming, the politician Baron Ernle, the historian Paul Mantoux, the historian and philosopher Lewis Mumford, the historian of economic thought and economic historian Leo Rogin, and sociologist Seabury Colum Gilfillan. None of those thinkers had an association with American Institutionalism. This marked omission indicates that Knight was not attempting to espouse an Institutional perspective on technology, suggesting that it did not align with his own perspective.

Knight (1935d) introduces direct criticism to the American Institutional approach to cumulative causation. For Knight, the institutionalist cumulative change is associated with “successive changes represent[ing] ‘more’ of something (which is the literal meaning of the word) or, more generally, that changes have a common ‘direction’” (Knight 1935d: 210). For Knight (1935d), the term “cumulative” does not

refer to the direction of the social change, but rather to a series of changes<sup>14</sup>. Hence, we can find evidence that Knight was not influenced by Institutionalists in his perspective on technology.

## **Final Comments**

By evaluating the studies on Frank Knight's Economics 305—Economics from an Institutional Standpoint, 1937 version (mailed to Clarence Ayres—16 February 1937, Clarence Ayres Papers, Box 3F290) with Knight's own writings on utility, wants, and technology, we conclude that the connection between Knight and American Institutionalism is weak at best. While Hodgson correctly states that there are some similarities in their thinking, by at large, these similarities are superficial.

Knight and Veblen have divergent perspectives on where the concept of utilitarianism originated in economics. While Knight asserts that Smith offers a utilitarian perspective, Veblen believed that Smith and Malthus were not strong believers in the utilitarian philosophy. This indicates that these men interpreted utilitarianism differently, as they ascribed it to different early economics.

Knight asserts that with utilitarianism was the start of the rise of “pure science” as a force in economics—a notion that both he and Veblen argue makes human interests weaker. Knight criticized the role of utility in costs adjustment and the confused general principle of distributions approach. Additionally, Knight felt that the contribution of utilitarianism to the analysis of demand was overestimated. However, Veblen considered utilitarianism just a matter of distribution, and that other approaches would be the logic of distribution being applied. Given this divergent interpretation, we may

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<sup>14</sup> Knight (1935d) can be more focused on Ayres's interpretation of Veblen's writings as it is a reply to Ayres (1935).

affirm that Knight was more rigorous in his reading of utilitarianism in economics than Veblen.

In another point of agreement, both Knight and Veblen believe that utilitarianism puts economics close to Newton's mechanics. For Knight, the analogies among economics and Newtonianism are weak; there are no clear definitions for terms like "static", "dynamics", "equilibrium" and "forces" in the economics context. Knight also affirmed that the laws of economic change were neglected; hence, economics should evolve in such directions and develop laws of motion. Veblen, however, took a different perspective. For him, Newtonianism would be an ancestral form of science, and economics should rely on evolutionary science, a more modern field. While Knight did not reject mechanics analogies in economics as a scientific principle, Veblen did. Thus, although both men had criticisms of utilitarianism, and although some of those criticisms were shared, there was too much disagreement between them to assert that Knight was an institutionalist.

Hodgson (2004) also claims that Knight was influenced by Veblen on the topic of wants. Yet our paper shows that Ayres specifically flagged that Knight did not include Veblen's seminal work on this matter, "The Theory of Leisure Class", as part of his coursework. While he mentioned it in passing in his class, he did not choose to include that text as part of the essential reading on wants, indicating that it was not a significant influence for him. In addition, Knight rejected John Dewey, a major influence on Veblen's approach to consumption. Therefore, we do not agree with Hodgson's assertion that Knight was influenced by Veblen's perspective on how wants are culturally built.

Hodgson does not mention much about technology in his chapter on Knight (2004). To investigate whether Knight took an Institutional approach to technology,

we reviewed the readings in Economics 305 to determine which perspective was most prominent. We found that none of them relied on American Institutionalists' studies. Further, Ayres suggested that technology take a more central place in Knight's course. Regarding the association of technology and cumulative causation, we discussed the Institutional approach's suggestion of following the direction of social change. This stands in opposition to Knight's perspective. Therefore, we found that Knight was not significantly influenced by institutionalists in his perspective on technology. To conclude, our findings are consistent with that of Asso and Fiorito (2008)—despite Hodgson's arguments, Knight cannot in fact be characterized as an American Institutionalist.

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