

KNIGHT, Frank Hyneman (1885-1972)

Frank Hyneman Knight was born in McLean County, Illinois on 7 November 1885 and died in Chicago Illinois on 15 April, 1972, at the age of 87. He was educated at the University of Tennessee, where he earned a bachelor's degree in the natural sciences and a master's degree in German and at Cornell University where he obtained his Ph.D. in economics in 1916. Following his graduation from Cornell, he taught at the University of Iowa for eight years (1919-1927) before moving to the University of Chicago where he was an economic professor from 1927 until 1955 and an emeritus professor until his death.

Knight made his reputation with his *Risk, Uncertainty, and Profit* (1921), which was based on his Ph.D. dissertation. In this work, Knight attempted to explain why profits would not necessarily be eliminated under perfect competition. In providing his explanation he made the key distinction between "risk" and "uncertainty". Risk was a situation, according to Knight, which one could assign a probability too and therefore could be insured against. In contrast, uncertainty was a situation for which the probability was unknown. Even in long-run equilibrium, Knight contended, entrepreneurs would earn a profit as a return for having to face uncertainty. Knight noted that a model which eliminates risk and uncertainty would also lack profit and as such, the standard model of perfect competition does not have profit in the economic sense.

Another contribution by Knight to economics in this period was his article, "Some Fallacies in the Interpretation of Social Costs" (1924). In this article Knight addressed Pigou's conclusion that road congestion justified the taxation of roads. Knight argued that no government intervention was necessary. If roads were privately owned, the owners would reduce congestion by raising tolls raising the price of using the roads.

Knight was brought to Chicago in 1927 to teach history of economic thought although he taught economic theory as well. He also developed a course on economics and social policy which he co-taught with the philosopher Charner Perry. In 1933, *The Economic Organisation*, a set of Knight's lecture notes was published. This book was used as part of the introductory course in the social sciences for undergraduates at the University of Chicago.

In addition to his work in economics, Knight was also a social philosopher and many of his writings reflect this. Knight was concerned about whether the public could understand the simplest economic truths as expressed in his 1950 presidential address to the American Economic Association. Knight was a proponent of *laissez-faire* as evidenced in his "The Ethics of Competition" (1923). Knight argued that the capitalist system could not be defended on ethical grounds. The economy, Knight argued, is too complex for government to understand. Government programs and interventions are too simplistic and the unintended consequences of intervention are more dangerous than the market outcome.

Knight's work in economics and social philosophy was also complimented with his realization regarding the importance of history. In *The Ethics of Competition and Other Essays* (1935), he argued that there was an "impassible gulf" between equilibrium states in economic theory and the path taken by the economy in reality. This required, according to Knight, a historical examination which cannot assume the movement toward equilibrium. For Knight, the market was morally suspect but so were orders from

government. *Laissez-faire* is preferable because it holds individual freedom as an absolute and the alternative is potentially much worse.

Knight was named president of the American Economic Association (AEA) in 1950 and he was awarded the AEA's Francis Walker Medal in 1957. This award was presented every five years "to the living American economist who has made the greatest contribution to economics." He was a Fellow of the American Academy of Arts and Sciences as well as the Italian national honor society, Accademia Nazionale De Lincei. Knight was selected by the U.S. Chamber of Commerce for its Great Living American Awards in 1959. His notable students include Milton Friedman, the 1976 Nobel Prize winner in Economics, George J. Stigler, the 1982 Nobel Prize winner in economics, James M. Buchanan the 1986 Nobel Prize winner in economics, Kenneth Boulding, a Commonwealth fellow and Paul Samuelson as an undergraduate.

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"The Ethics of Competition," *Quarterly Journal of Economics* (1923), 37: 579-624.

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The Economic Organisation (Chicago, 1933)

The Ethics of Competition and Other Essays (Chicago, 1935).

Freedom and Reform: Essays in Economics and Social Philosophy (Chicago, 1947).

Other Relevant Works

Selected Essays by Frank H. Knight. Volume 1: "What is Truth" in Economics? Ross B. Emmett, ed. (Chicago, 1999).

Selected Essays by Frank H. Knight. Volume 2: Laissez-Faire: Pro and Con. Ross B. Emmett, ed. (Chicago, 1999).

Further Reading

Boettke, Peter J. and Karen I. Vaughn. "Knight and the Austrians on Capital and the Problem of Socialism," *History of Political Economy*, 34 (1) 2002: 153-174.

Ross, Emmett B. "Frank Hyneman Knight (1885-1972): A Bibliography of His Writings." *Research in the History of Economic Thought and Methodology*, Warren J. Samuels and Jeff Biddle, eds., archival supplement 9, 1999, pp. 1-100.

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