

# **Seven Essays on the Genealogy of Uncertainty**

By

**Stephen J. Nash and Liza J. Rybak**

**Seven Essays on the Genealogy of Uncertainty**

**By Stephen J. Nash and Liza J. Rybak**

**This book first published 2024**

**Ethics International Press Ltd, UK**

**British Library Cataloguing in Publication Data**

**A catalogue record for this book is available from the British Library**

**Copyright © 2024 by Stephen J. Nash and Liza J. Rybak**

**All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical photocopying, recording or otherwise, without the prior permission of the copyright owner.**

**Print Book ISBN: 978-1-80441-698-3**

**eBook ISBN: 978-1-80441-699-0**

## Table of Contents

Foreword .....	vii
Introduction .....	ix
Essay One:	
On the Anticipation of Knightian Uncertainty in Nietzsche's Genealogy of Morals.....	1
Essay Two:	
On Logical Difficulties, Philosophy, and the TCE Explanation of the Firm .....	41
Essay Three:	
On "Natural" Uncertainty: The Philosophical Underpinnings of Uncertainty in Economics, with Special Reference to Knight and Strauss.....	74
Essay Four:	
On Equality .....	112
Essay Five:	
On the Universal Qualitative Uniformity of Man in Locke .....	167
Essay Six:	
On Black, White, and the Possibility of Beauty in Locke.....	222
Essay Seven:	
Locke, Marshall, and Knight, on Uncertainty and Risk.....	274
Conclusion.....	318
Essay Sources .....	332

# Foreword

The absence of uncertainty essentially marks the essential difference, between modern social science and the understanding of practical decision-making that existed before the advent of modern social science. However, two eminent economists, F.H. Knight, and J.M. Keynes, essentially attempted to bridge the gap, between pre-modern philosophy and modern philosophy, by introducing uncertainty back into economic analysis, in the early twentieth century.

However, this introduction largely failed because there was largely no elaboration of how philosophy shaped the fundamental structure of Marshallian economic analysis. More specifically, one might dissect the failure of both authors, to incorporate uncertainty into economic theory, in the following manner:

- first, both economists failed to locate the philosophical system that supported the existence of uncertainty, in the context of understanding practical decision-making, in the period before modern economics,
- second, both economists did not identify the philosopher who successfully made a case for the elimination of uncertainty, within the understanding of decision-making that is used in modern economics, and
- third, both economists generally explained uncertainty as if it was something that they each discovered; each in their own, separate, way.

Uncertainty was, is, and always will be, a significant subject that practical decision-makers need to have logically accommodated within the analysis of practical decision-making. This urgent need for accommodation remains an imperative issue for practical decision-makers, despite the deliberate trivialization of this issue by modern economics, which has sought to obscure the subject of uncertainty.

Essentially, modern economics has failed to articulate where uncertainty emanates from, in a philosophical sense, why it was deliberately obscured, and how economics can better acknowledge uncertainty within the structure of economic analysis in the future.

Accordingly, for the first time, this genealogy goes some way towards addressing the abovementioned failures, of both Knight and Kenes, although the focus is mainly on Knight. Here the philosophical system that supports the existence of uncertainty is identified. Also, the philosopher who deliberately made the case for excluding uncertainty, from the understanding of practical decision-making, is not only identified, but it is also analysed in some detail. Pertinently, this philosopher is typically excluded from consideration in economic theory, which is most probably a deliberate exclusion on the part of the philosopher in question.

Despite articulating the genealogy of uncertainty, it is argued that uncertainty, as it existed before the initiation of modern economics and the contemporaneous exclusion of uncertainty, remains completely inconsistent with the philosophy that supported Marshallian economics. Hence, incorporating uncertainty into modern economics does not represent an easy, nor a trivial, task, as has been imagined in economic theory to date. Rather, the incorporation of uncertainty within economic theory will require the creation of a difficult change to the philosophy that supports economics. However, the overcoming of this difficulty holds the great promise of freeing economics from the influence of the philosopher, who has effectively imprisoned independent thought, within economics, for many years.

# Introduction

Rather than philosophers being shaped by history, philosophers make history. Accordingly, the enclosed genealogy broadly traces how John Locke made history by eliminating the idea of uncertainty from serious consideration within economics, despite the fact that uncertainty was a significant issue for the analysis of practical decision-making in older philosophy.<sup>1</sup> Using a genealogy follows the technique created by Nietzsche, who made history by setting out his timeless view of morality, instead of responding to historical imperatives. However, this timeless analysis of morality is now, in many ways, logically irrelevant to both man in general, and economics in particular. In large part, the underlying reason for this newfound irrelevance of morality is, among other things, the systematic elimination of the idea of uncertainty, which Nietzsche most probably anticipated. However, this elimination was not something achieved overnight, with ease, as economics has implied to date. Rather, this elimination was performed over many years in the form of a struggle, probably best seen at the turning point, between ancient and modern philosophy. Accordingly, by tracing through the various changes that occurred in philosophy it may be possible, for the first time, to detail the philosophical struggle that led to the elimination of uncertainty.

While uncertainty may well remain, as Lawson pertinently argues, a 'pervasive fact of life', the implications of accepting the presence of uncertainty within economic theory remain largely unexplored, as they were around 1985, with Lawson, and after 1921, with Knight, when uncertainty was discussed in economics (Lawson 1985, 909). Accordingly, the account of uncertainty, as offered by Keynes (1921, [1936] 1983), has seen little substantive impact on economics, while the

---

<sup>1</sup> One wonders whether modern economics has now become the 'slave' that Locke refers to, in the opening chapter of the first treatise, which is the central of his three main works (Locke [1689] 1988). Locke may well be the unquestioned 'master' of modern thinking in general, and of modern economics in particular.

account of uncertainty offered by Knight ([1921] 1985), as explored herein, has suffered largely the same fate. Accordingly, it is now fair to say that the flawed account of uncertainty, as proposed by Knight, and as focused on herein, is now recognized in economics as a sham issue that has, in reality, no force, and carries no weight in any economic analysis whatsoever. As this work indicates, the main reason that the work of both Keynes and Knight was ultimately unsuccessful, in terms of establishing uncertainty in economic theory, is that firstly, they both failed to detail which philosophy eliminated uncertainty in neo-classical economics, and secondly, they failed to detail which philosophy provided a coherent basis for uncertainty, prior to modern philosophy rejecting uncertainty. In other words, to adequately ground the idea of uncertainty, one needs to consider the great clash in philosophy, which came about just before economics.

In trying to understand why a once serious theoretical issue has recently degenerated into a vacuous simulacrum, economists generally provide no substantive assistance. Rather, economists remain almost universally complacent about the idea of uncertainty in economic theory, despite not knowing either how uncertainty came to exist before economics, or, why uncertainty came to be eliminated, with the advent of economics. By way of contrast, it is argued that there is an urgent need to understand uncertainty, not from a passive viewpoint, but from a viewpoint that requires considerable active consideration, through coming to grips with the understanding of the genealogy of uncertainty.

Despite the nonchalant dismissal of uncertainty, economics continues to demonstrate problems that emerge from this dismissal. Importantly, the need to consider uncertainty remains evident from how economics continues to refer to terms like 'prudence'. Such a term remains inconsistent with the exclusion of uncertainty within economic theory, when economics is grappling with the explanation of practical decision-making. For example, prudence, as understood from Aristotle, is the requirement to make decisions, under conditions of uncertainty. Now, if uncertainty is logically redundant to all the social sciences, then ideas

such as prudence, must also remain logically redundant, and the need to refer to such terms highlights the incoherence of modern economics, with regard to the idea of uncertainty. In order to acquire coherence, the enclosed genealogy seeks to better understand not only what uncertainty was, in older philosophy, but why it plays such a large role with older philosophy in terms of explaining practical decision-making. As Nietzsche ([1887] 1996) has done, the enclosed genealogy is generally designed to trace the origins of an idea, with a view to altering, and possibly re-evaluating the current understanding of that idea. Importantly, uncertainty in economics was often mistakenly observed as something that Marshall simply overlooked, when designing neo-classical economics, so that uncertainty can be seen as a largely trivial technicality that can now be safely ignored by the modern economist. Such an observation remains highly misleading, as the exclusion of uncertainty in economics is not simply a chance event, but it will be argued, in this genealogy, to be a deliberate outcome of the rejection of older philosophy by John Locke, and the three works that make the modern world.<sup>2</sup> Whereas Nietzsche sought to trace the origins of the ideas of morality, and the ideas of good and bad, among other things, this work is concerned with possibly restoring the distinction between 'good' and 'bad', by harnessing the enclosed seven works so as to challenge the three works of Locke. In investigating this genealogy, the work of philosophers, such as Hegel and especially Locke, loom large, as well as the important work of Knight.

More specifically, uncertainty began to reemerge as a modern theme in philosophy with Nietzsche, who is well known for interpreting the ancient philosophers, using his exceptional capabilities as a classical philologist. Here, Nietzsche breaks away from the idealized framework that had dominated modern philosophy in the nineteenth century, which generally understood that men act in the manner understood in modern economics, being a universal procedure of optimization, where uncertainty becomes virtually irrelevant. Here, science was allegedly

---

<sup>2</sup> Namely, *The Essay* (Locke [1689] 1824), and *The Two Treatises* (Locke [1689] 1988).



guiding man towards a more perfected state without his intention or his direction. Nietzsche devastated the philosophy of Idealism, which effectively killed the gods of science, and the other things, which Idealist philosophy had created. Also, partly inspired by Nietzsche, Pragmatism was beginning to develop new ways of thinking about human knowledge. For the Pragmatists, the idea that human knowledge, among other things, could not ever, or in any way, be seen as being either completely perfect, or completely imperfect. Rather, human knowledge was beginning to be interpreted more in terms of individual human intention, where one intention differs, in quality, intensity, and scope, from other individual human intentions. Hence, human knowledge is seen by both Nietzsche and the Pragmatists, as being qualitatively diverse. All these qualitatively different intentions were seen to have shaped the broader landscape of human knowledge, which, among other things, made the simplistic application of so-called 'scientific' techniques to the social sciences, an excessive, and extremely damaging, simplification.

Knight was aware of these developments in philosophical thinking, as partly inspired by someone like Nietzsche, who was intimately appraised of ancient philosophy, and the Pragmatists. However, even though Knight does not provide a coherent philosophical system that supports his proposal of uncertainty, Knight demonstrates the important linkage of economics to developments in philosophy. While being extremely critical of Pragmatism, especially in his later work, Knight has been shown to have used various aspects of Pragmatism to suggest the existence of Knightian uncertainty, as has been shown elsewhere.<sup>3</sup> Specifically, Knight follows several of the key aspects of Pragmatic philosophy, when proposing Knightian uncertainty as follows:

- first, human knowledge is portrayed by Knight as representing the intersection of human intention and external reality (Knight [1921] 1985: 22-50),

---

<sup>3</sup> Nash 2003.

- second, human knowledge is conceived by Knight as being not uniform, but is dependent on context (Knight [1921] 1985: 197),
- third, Knight conceives the future not as the outcome of predictable mechanical forces, but as the outcome of divergent human intention to change the future; intentions that cannot be predicted (Knight [1921] 1985: 202),
- fourth, Knight generally conceives uncertainty to highlight the problem of disentanglement; of the observer from what is being observed (Knight [1921] 1985, 251), and
- fifth, intelligence is not equated with experience, for Knight, because all experience is imbued with disparate intentions, and these disparate intentions make experience full of what might be called ‘errors’, according to the discredited idea that human knowledge can be uniform (Knight [1921] 1985, 203).

Given this initial context, and how Knight emphasises the linkage between philosophy and economics, the essay sequencing, as employed in the following genealogy, can broadly be seen to begin with an elaboration of the philosophical linkages to uncertainty. How Nietzsche, an expert on ancient philosophy, anticipates the work of Knightian uncertainty is initially explored in essay one. Economics, essentially unable to accept the critique of Idealism by Nietzsche, is then shown to have ineptly applied the work of Knight to the theory of the firm, with the development of what will be shown to be an entirely incoherent literature on the subject of the firm, in essay two. Essay three then seeks to identify the philosophy that coherently supports the existence of, and importance of, uncertainty for situations of practical decision-making. Hence, essay three essentially provides the philosophical contrast with older philosophy, which is then applied in essays four to six, as the work of Locke is examined in some detail. Given the comprehensive understanding of Locke, as generated in essays four to six, essay seven then traces this detailed understanding through the development of modern economics.

Given the above summary of the essay sequence in the genealogy, the individual chapters now require some introduction.

Specifically, essay one, shows how the idea of Knightian uncertainty is linked to the philosophical context that precedes Knight, especially German philosophy, which was leading world thought at the time (Hegel [1821] 1967, [1837] 1956; Kant [1787] 1929, [1790] 1997). In general, the enclosed genealogy extends that context, from the more recent philosophy of Nietzsche, Kant, and Hegel, towards an understanding of why the philosophy of Locke sought to eliminate consideration of the idea of uncertainty, as it existed before modern philosophy. With regard to more recent philosophy, it can be noted that Knight was an accomplished German scholar who had translated German texts into English, while also remaining aware of the significance of German philosophy to economic theory. Specifically, perspectivism was the break with traditional ideas of knowledge that, among other things, Nietzsche brings with his various contributions to German philosophy. Individual intentions, or wills, are argued, by Nietzsche, to shape and transform human knowledge, so that the very idea of one uniform truth becomes logically impossible to Nietzsche, as well as to the Pragmatistic philosophy that Knight uses to propose his definition of uncertainty. As essay one indicates, Nietzsche questions the procedure of comparing actual human knowledge to perfect human knowledge, which remains a procedure used extensively within Marshallian economics, by applying his intimate knowledge of ancient philosophy to bear on his critique of Idealism. Importantly, how Knight engages with the ideas of Nietzsche in his earlier works, is explored in essay one, where Knight argues that definite and unchanging laws, such as those that exist in the physical sciences, are not applicable to assessing the deliberate act of human decision-making. By linking Knight to an important philosopher, such as Nietzsche, a general theme of this genealogy, which is the grounding of uncertainty within various types of philosophy, is initiated. While modern economics has undermined this critical linkage, often making the outrageous and dangerous claim that economics is both 'value free' and not reliant on

any philosophy, this work cultivates and explores this significant linkage, so as to expose the origins of uncertainty within a momentous philosophical debate around the time of Locke; a debate that essentially came to make modern economics.

In the period after Nietzsche, essay two essentially seeks to determine whether the idea of uncertainty, as proposed by Knight, and as partly anticipated by the knowledge of ancient philosophy held by Nietzsche, was either acknowledged, or was coherently incorporated into examples of economic analysis, such as the analysis of the firm. Specifically, Nietzsche was reacting against Idealism by arguing that knowledge is non-uniform, and human knowledge depends on the disparate intentions of man, to change the future. Knight then applies this insight to economic theory, by harnessing developments in Pragmatic philosophy. In the context of such a large and profound movement in philosophy, it would be logical for economic theory to have coherently integrated these changes into the explanation of the firm. However, within the TCE explanation of the firm, uncertainty is identified as the reason for generating transaction costs, and these costs then form the basis of explaining a theoretical firm that exists within the broader Idealist background of Marshallian economics. Accordingly, this essay explores a problem with this problematic application of Knightian uncertainty, which implicitly rejects Idealism, on the one hand, while effectively being placed within a Marshallian system of analysis, being a system that rejects uncertainty, on the other hand (Coase 1937; Williamson 1998).

While a questioning of the logical consistency, between uncertainty, and the neo-classical economics of Marshall, is developed in essay two, the primary philosophical basis for the notion of uncertainty, as supported by a coherent system of philosophy, is more adequately explored in essay three. Here, an examination of whether the philosophy of Aristotle provides a basis for the acknowledgement of uncertainty, and the practice of decision-making under conditions of uncertainty, is conducted (Aristotle, 1980, 1995). While prudence is

often referred to in modern economic theory, it will be investigated whether, or not, the term prudence retains any logical basis in neo-classical economic theory. As opposed to Knightian uncertainty, this alternative form of uncertainty might be referred to as 'natural' uncertainty. Here, nature, not man, provides much more value than Locke was prepared to acknowledge, within the logical structure he creates, which forms the basis of Marshallian economics (Strauss 1952).

If Locke was so important, in terms of proposing a philosophy that prevented the recognition of uncertainty as it exists in nature, according to older philosophy, then there might be other aspects of Locke that could assist one to better understand economics, as explored throughout essay four. Moreover, such understanding might assist one to better understand modern social science, in general. Specifically, in order to argue that virtually all value is derived from the labour of man, it is explored whether, or not, Locke is forced to change what is understood by value, from what had been understood by his great philosophical rival, being Aristotle. Before Locke, essay four explores whether value refers to the contribution of both nature and man, whereas after Locke, essay four explores whether value virtually exclusively refers to the contribution to value that is created by man. In other words, essay four determines whether Locke homogenizes the idea of value, and whether this homogenization applies to all human experience, so that all human experience becomes qualitatively equivalent. One of the problems in this homogenization of all human experience may be that Locke may well be forced to trivialize the outcomes of all human decision-making. An example of this trivialization might be, apart from other things, that there cannot be any qualitative distinction between practical decision-making, on the one hand, and decision-making under economics, on the other hand. Before Locke, it was evident that great literature, like Shakespeare's *Romeo and Juliet*, which partly draws on Aristotle, tries to guide one to the realization that imprudent decision-making can have outcomes that do not merely represent a loss of replaceable human labour, as Locke maintains is effectively always the case (Shakespeare [1597] 2000).

Rather, Shakespeare shows that significant natural talent, representing significant human qualities as conferred by nature, can also be at stake and these qualities form what can be termed non-trivial outcomes. These natural qualities can be utterly destroyed by imprudent decision-making, when considered according to the philosophy of Aristotle. In the alternative, according to Locke, the exclusion of natural value, locks out moral considerations, as well as all the non-trivial decisions that Shakespeare considers.

If the very possibility of morality is extinguished by, among other things, the axiomatic claim that virtually all value emanates from man, then the definition of uncertainty may well be seen to be linked to moral questions as considered in essay five. Importantly, it will be investigated, whether, or not, the primary motivation of man becomes, under Locke, one of gaining more property, not less property, as opposed to discerning what is good and what is bad, and then seeking to do good. Essentially, essay five explores whether Locke transforms the distinction between good and bad into the distinction between more property, as replacing the idea of the good, and less property, as replacing the idea of the bad. While this transformation is well known, the problem may well be that the discernment of qualitative distinction, in various forms, still remains an obsession of contemporary man, based on commonsense experience. Even though Locke denies the existence of qualitative diversity, it is explored whether the primary interest of man remains focussed on the very thing that Locke expunges from his analysis. While the benefits of adopting such equality are summarized by the possibility of applying the formal techniques, as used in the physical sciences, to the social sciences, it may be that the costs of such an adoption remain largely hidden. Ignoring qualitative differences between men, and the impact of nature on these differences, may well be costly, because it may risk making the study of decision-making grotesque, not only in appearance, but in substance.

Another important aspect of claiming that virtually all value emanates from man is that Locke necessarily eliminates qualitative distinctions

from all analysis, so that, among other things, the distinction between risk and uncertainty becomes one of degree, not kind. In addition, it becomes difficult for man to coherently recognize anything from nature as being valuable, as explored in essay six. All value may become replicable quantities of labour, so that all forms of value, regardless of perceived quality, may well become trivialized. It may even be that even natural beauty would have to be trivialized, despite natural beauty providing meaning and significance for contemporary man. In many ways, it will be explored whether the topic of natural beauty is central to understanding Locke, as well as the idea of uncertainty in economic theory, as it may show the somewhat extreme lengths that Locke is prepared to go to, in order to create logical coherence within the context of his axiomatic premise, that virtually all value emanates from man. For example, it will be considered that while Locke discusses natural beauty in *The Essay*, he then eliminates reference to it in *The Two Treatises*. Importantly, it will be investigated whether Locke argues that natural beauty is, in fact, a creation of the emotions that is designed to placate man in a barren world that is replete with natural ugliness. This destruction of the idea of natural beauty, may be one of the costs that the social sciences must logically bear, so as to be able to effectively overlook the significant problems that emanate from qualitative variations, as recognized by Aristotle and as derived from nature.

Given the dominant influence of Locke, and the thoroughgoing trashing of natural beauty that Locke brings to the consideration of man and nature, it would be useful to explore how Locke supported the elimination of uncertainty in the economics of Marshall, as indicated in essay seven. In most accounts of Marshall, it is evident that Marshall is generally portrayed by the literature as an author who simply ‘forgot’ to acknowledge uncertainty (Groenewegen 1990). However, that portrayal may well be misleading because uncertainty was eliminated by Locke, and then that elimination was developed by the analysis of Hegel, into the analysis of human history, among other things. Idealism never had any logical room for the idea of uncertainty, and that is one of the problems that Nietzsche found so incredibly irritating about

Idealist philosophy. While Knight notices the absence of uncertainty in Marshall, it will be explored whether, or not, Knight delves into the philosophy that drove that absence.

In general, this genealogy will seek to give a broad-based account of where the idea of uncertainty in economic theory originated from, and what the implications of removing uncertainty from economic analysis might mean. Importantly, the complex issue of uncertainty in economic theory is assessed from a variety of perspectives in the following genealogy, and the multiple perspectives that are employed allow one to formulate a more holistic perspective on this important, yet complex, issue. Formulating this perspective comes by piecing together a variety of different questions in each essay, where the threads generated in each essay create a deeper appreciation of a topic that lies at the very centre of social science and modern economics. For example, the fact that economics has comprehensively failed to seriously engage with the issue of uncertainty, and the philosophy that supported uncertainty before Locke eliminated it, may well signal the underlying importance of uncertainty within the social sciences. However, if one then combines that realization with other themes outlined in the genealogy, such as, for example, identifying the ultimate philosophical source of uncertainty, then a better appreciation of the underlying weight of uncertainty within economic theory can be gained, when compared to just taking one of the themes discussed, within each essay, in isolation. Together, the essays create a strength and diversity of argument that is quite difficult to ignore; an argument that has only been partly made in the past, only being rarely implied by philosophers such as Nietzsche.



## References

- Aristotle.(1980). *The Nicomachean Ethics*. Translated by D. Ross. Oxford: Oxford University Press.
- Aristotle.(1995). *The Politics*. Translated by E. Barker. Oxford: Oxford University Press.
- Arrow, K.J. (1948), 'Social Choice and Justice', in *Collected Papers of K.J. Arrow*, Blackwell, Oxford.
- \_\_\_\_ (1950), 'A Difficulty in the Concept of Social Welfare', *Journal of Political Economy* 58(4), Aug. 328–46.
- \_\_\_\_ ([1951a] 1963), *Social Choice and Individual Values*, Yale University Press, New Haven and London.
- \_\_\_\_ ([1951b] 1971), 'Alternative Approaches to the Theory of Choice in Risk-taking situations, *Economica*, 19, 404-37, in K.J. Arrow (ed.), *Essays in the Theory of Risk-Bearing*, North-Holland, Amsterdam.
- Coase, R. H.(1937. 'The Nature of the Firm.' *Economica* 4 (16): 386–405. doi:10.1111/j.1468-0335.1937.tb00002.x.
- Dewey, J. ([1895-1898b] 1967). 'The Reflex Arc Concept in Psychology.' In *John Dewey: The Early Works: 1882-1898*, (5): 96–110. Carbondale: Southern Illinois University Press.
- Groenewegen, P. D.(1990). 'Marshall and Hegel.' *Economie Appliquee*, 43 (1): 63–84.
- Hegel, G. W. F. ([1821] 1967). *Philosophy of Right*. Translated by T. M. Knox. London: Oxford University Press.
- \_\_\_\_ ([1837] 1956). *Philosophy of History*. Translated by J. Sibree. New York: Dover Publications. Heidegger, M. 1971. *On the Way to Language*. London: Harper & Row.
- Kant, I. ([1787] 1929). *Critique of Pure Reason*. Translated by N. K. Smith. London: Macmillan.
- \_\_\_\_ ([1790] 1997). *Critique of Judgment*. Translated by J. C. Meredith. Oxford: Oxford University Press.
- Keynes, J.M. (1921). 'A Treatise on Probability', In D. Moggridge (ed.), *The Collected Writings of John Maynard Keynes*, Macmillan, London.

- \_\_\_\_ ([1936] 1983). *The General Theory of Employment, Interest, and Money*, Paperback ed., Macmillan, London.
- Knight F.H. ([1921] 1985), *Risk, Uncertainty, and Profit*, Houghton Mifflin, Boston MA.
- Lawson, T. (1985). 'Uncertainty and Economic Analysis', *Economic Journal*, Vol. 95, 909-27.
- Locke, J. ([1689] 1988), *Two Treatises of Government*, Cambridge Texts in the History of Political Thought, edited by R. Guess, P. Laslett, and Q. Skinner. Cambridge University Press. Cambridge.
- \_\_\_\_ ([1690] 1824), *An Essay Concerning Human Understanding*, Vols 1 and 2. Rivington, London.
- Mansfield, H.C. Jr. (2006), *Manliness*, Yale University Press, New Haven CT.
- Marshall, A. ([1890] 1961). *Principles of Economics*. 8th ed. London: Macmillan.
- \_\_\_\_ ([1919] 1920). *Industry and Trade, a Study of Industrial Technique and Business Organization; and of Their Influences on the Condition of Various Classes and Nations*. London: Macmillan and Co. Ltd.
- Nash, S.J. (2003), *Pragmatic Philosophy and Knightian Uncertainty*, Review of Social Economy, 61(2): 251-72.
- Nietzsche, F. W. ([1887] 1996), *On the Genealogy of Morals, A Polemic, By Way of Clarification and Supplement to my Last Book: Beyond Good and Evil*, trans. D. Smith, Oxford University Press, Oxford.
- Shakespeare, W. ([1597] 2000). *Romeo and Juliet*. London: Wordsworth.
- Strauss, L. (1952). *Persecution and the Art of Writing*. Chicago: University of Chicago Press.
- Williamson, O. E. (1998). 'Transaction Cost Economics: How It Works; Where It Is Headed.' *De Economist*, 146 (1): 23–58. doi:10.1023/A:1003263908567.

# Essay One

## On the Anticipation of Knightian Uncertainty in Nietzsche's *Genealogy of Morals*

### ***Abstract***

In looking towards the origins of uncertainty in economic theory, most economists point to the groundbreaking work of Frank Knight in America or J.M. Keynes in England. However, it can be argued that developments in philosophy contributed, at least in some way, to the proposition of uncertainty in economics, particularly in the case of Knight. In tracing the nature and scope of these contributions, as they relate to Knightian uncertainty, this paper generally looks beyond the more immediate Pragmatic influence on Knight, towards a work by an author who anticipates some of what both Knight and the Pragmatists were to emphasise, the *Genealogy of Morals*. In describing this possible anticipation by Nietzsche, it will be necessary to present the discussion in three parts. First, since the understanding of Nietzsche is premised on an understanding of the philosophical context that confronted Nietzsche, a brief outline of this context will be provided. Second, a more detailed examination of Nietzsche's anticipation of Knightian uncertainty is then provided. Third, a comparison of Knightian uncertainty, the principles of Pragmatic philosophy, and Nietzsche's *Genealogy of Morals* is used to provide a more detailed articulation of possible anticipations of Nietzsche.

**Keywords:** German Idealism, Transcendental Philosophy, Pragmatic Philosophy, Uncertainty, Nietzsche, Knight

### **Introduction**

Philosophy, particularly Pragmatic philosophy and German literature, had a significant impact on American economics in general, and the writing of *Risk, Uncertainty, and Profit* ([1921] 1985) in particular.<sup>1</sup> This

is not to say that Knightian economics is entirely dependent on philosophy. Rather, the influence of philosophy on Knight is a significant factor in the genealogy of Knightian uncertainty; one that can be argued to both surround and support the proposition of uncertainty in *RUP*.<sup>2</sup>

In searching for the possible inspiration for the proposition of uncertainty, one can note that Knight harnessed a keen interest in German literature, which may have prompted Knight to refer to German literature throughout his career. First, before the writing of *RUP*, Knight wrote his M.A. thesis on a significant figure in German literature; Gerhardt Hauptmann (Knight 1913a). Second, after the writing of *RUP* an ongoing interest in German literature prompted Knight to complete the translation of Max Weber's *General Economic History* ([1923] 1926).<sup>3</sup>

Apart from German literature, philosophy was also an important aspect of the intellectual landscape from which the proposition of Knightian uncertainty was made.<sup>4</sup> With regard to this possible influence of Pragmatic philosophy, one can note that the distinction between risk and uncertainty is essentially built on what Knight refers to as a 'superficial sketch of the theory of knowledge' (Knight [1921] 1985, 199-200). Instead of remaining indifferent between the various philosophical theories of knowledge, Knight states his preference for the Pragmatic theory of knowledge near the beginning of his discussion of uncertainty.

It will be evident that the doctrine expounded is a functional or pragmatic view, with some reservations (Knight [1921] 1985, 200).

Considering these two influences it can be argued that Knightian uncertainty is partly an offspring of German literature and partly an offspring of American Pragmatic philosophy.<sup>5</sup> Yet, in order to understand this genealogy of Knightian uncertainty one must seek a way of reconciling Knight's interest in both German literature and Pragmatism; to fill the gap that exists between these two influences.

Generally, this work proposes that the work of Nietzsche bridges at least some of this gap, where Nietzsche anticipates at least some of what Knight was to later articulate.

In elaborating this anticipation of Knightian uncertainty by Nietzsche's *Genealogy of Morals*, a brief sketch of the philosophical context of Nietzsche is first provided in section two. Such a sketch is required, since an understanding of Nietzsche is premised on an adequate understanding of the philosophic questions that concerned Nietzsche. Instead of focussing on all of Nietzsche's work, *The Genealogy of Morals* is selected, since it contains probably the most coherent account of Nietzsche's idea of 'perspectivism', which will be shown to be important to Knight. Whereas section two essentially outlines the philosophical approach to the fallibility of knowledge, a more detailed rationale for the idea of uncertainty becomes apparent in section three. Here, the portentous contribution of Nietzsche, which was to be taken up somewhat independently by the Pragmatists, and then by Knight, is outlined.<sup>6</sup> Finally, section three brings together the analysis by contrasting Knightian uncertainty to both Pragmatic philosophy and the work of Nietzsche in the *Genealogy of Morals*. By highlighting the similarities between Knightian uncertainty, the Pragmatists, and Nietzsche, the similarities between Knight and Nietzsche may also be clarified to some extent.

## **Philosophical Context**

In order to give a complete account of how the philosophical development of uncertainty influenced scientific debate, a lengthy and detailed account is required. However, such a lengthy account cannot be given within the confines of the present work. Given this limitation and by way of summary, it can be noted that the impulse toward the development of Knightian uncertainty tends to begin with Hume.<sup>7</sup> Here, Hume applies the insights of the experimental method, which were learned in the realm of the natural sciences, to the moral realm. In doing so, Hume argues that such an application is intended to create a

more solid basis for all types of scientific endeavour (Hume [1739] 1985, 43-4).

**Hume.** Despite the intention of Hume, his work creates the impression that all knowledge may be fallible, by asserting that all thought is derived from a possibly faulty set of sense perceptions (Hume [1739] 1985, 49). No qualitative distinction, between impressions and ideas exists, so that the difference between ideas and impression is one of degree, such that 'Impressions and Ideas differ only in their strength and vivacity' (Hume [1739] 1983, 66). All ideas, therefore, emanate from sense perception, even though the senses cannot be trusted to deliver accurate perceptions. Here, Hume presumably measures 'accuracy' by comparing human knowledge to a form of knowledge that is objective, which is not derived from such faulty sense perceptions. Moreover, the faculty of reason, which links together all these disparate sensations is not reliable since,

This sceptical doubt, both with respect to reason and the senses, is a malady, which can never be radically cur'd, but must return on us every moment, however we may chance it away, and sometimes may seem entirely free from it (Hume [1739] 1985, 267-8).

Since both sense perception and reason are fallible and unreliable Hume argues that, 'all knowledge degenerates into probability' (Hume [1739] 1985, 231, 238). It is this fallibility of reason and the unreliability of sense perceptions that forces merchants to heavily rely, not on certitude but on, 'some degree of probability; tho' uncertain and variable, according to the degrees of his experience' (Hume [1739] 1985, 232).

**Rousseau.** This impression of fallibility, derived in part from the work of Hume, was of particular interest to Kant, when combined with the insights of Hume's great contemporary; Rousseau ([1770] 1964). In contrast to Hume, it can be argued that Rousseau prioritises the understanding of human agency ahead of considerations of the fallibility of knowledge.<sup>8</sup> Rousseau's prioritisation of moral issues, over

issues concerning scientific investigation is a response to his basic disagreement with the moral implications of enlightenment thought. It can be argued that this prioritisation, apart from other things, resulted in the proposition of human agency as the fundamental right of man. In contrast, Rousseau argues that both Hobbes ([1651] 1950) and Locke ([1698] 1967) prioritise issues of self-preservation, as underpinned by law, over considerations of individual morality. Laws protect the interest of the powerful by bonding the majority, not to the fruits of progress, but to penury. If preservation is the goal of enlightenment thought, then Rousseau leads one to question the underlying reason for preservation. Preservation, or 'progress' was moving towards the enslavement of the majority, and the destruction of man's freedom, according to Rousseau.<sup>9</sup> Preservation or 'progress' was, therefore, leading to the destruction of any possibility for the good life for the majority (Bloom [1963] 1987, 560-1).

**Kant.** These priorities of Rousseau, apart from others, were used by Kant to counter the arguments of Hume. At a general level, Hume's sceptical position poses some problems for philosophy. As Kant says,

Thus the fate that waits upon all scepticism likewise befalls Hume, namely, that his own sceptical teaching comes to be doubted, as being based only on facts which are contingent, not on principles which can constrain to a necessary renunciation of all right to dogmatic assertions (Kant [1787] 1929, 611).

Uncertainty, or at least the fallibility of knowledge, enters the Kantian conception of knowledge because empirical knowledge is so closely tied to the observer. It is the observer who generates concepts, and it is the observer who exercises human agency by engaging with the world, so as to derive experience and, ultimately, knowledge. Every question must be posed from the exercise of human agency; from the perspective of one's own conscious existence. Moreover, every answer must be derived with reference to the outcome of human agency; one's own experience. In the event that the perceptions of one person can differ from others, and that everyone may have different access to

information, then the veracity of personal knowledge is exposed to the possibility of doubt. Yet, while on the brink of emphasising the fallibility of knowledge, Kant proposes the Transcendental hypothesis, which indicates, apart from other things, that,

all life . . . neither begins in birth nor ends in death; that this life is an appearance only, that is, a sensible representation of the purely spiritual life, and that the whole sensible world is a mere picture which in our present mode of knowledge hovers before us, and like a dream has in itself no objective reality; that if we could intuit ourselves and things as they are, we should see ourselves in a world of spiritual beings, our sole and true community with which has not begun through birth and will not cease through bodily death – both birth and death being mere appearance (Kant [1787] 1929, 619).

**Developments on Kant: Hegel.** Hegel developed one possible implication of Kant; that if consciousness precedes sensation, and the Transcendental realm precedes consciousness, then the Transcendental realm may possibly become the key to understanding all things including the essential character of man. In this way, Hegel's development of Kant tended to more completely eliminate the acceptance of the fallibility of knowledge and uncertainty, than the work of Kant would suggest. In doing so, this Hegelian enterprise tends to emphasise the notion of the mind, apart from other things, by arguing that history allows man access to the gradual revelation of the Transcendental realm (Hegel [1821] 1967, [1837] 1956). Absolute knowledge occurs, through this revelation, when the mind comes to realise that reality is a complete artifice of the mind itself, and that there is nothing beyond that artifice.<sup>10</sup>

**Developments on Kant: Schopenhauer.** By way of contrast, Schopenhauer argues that the retreat into an individual perspective cannot validate the idea that there is only one valid form of scientific knowledge. Rather, this retreat can be argued to extinguish all pretensions to know the universe according to one form of knowledge.



Instead of one mode of knowing all things, there are suddenly many modes that are created by what Schopenhauer refers to as the 'will'. Here, Schopenhauer attempts, controversially according to some, to extend the idea of Transcendental knowledge through articulating the notion of the 'will' (Janaway [1994] 1997, 235-7). Schopenhauer argues in a fashion that is derived from his interest in mystical texts, that everything in nature is a representation of the will. It is this notion of the will that underlines the fallibility of knowledge. As Schopenhauer indicates,

only the will is the thing in itself . . . It is the innermost essence, the kernel, of every particular thing and also of the whole. It appears in every blindly acting force of nature, and also in the deliberate conduct of man, and the great difference between the two concerns only the degree of the manifestation, not the inner nature of what is manifested (Schopenhauer [1819] 1969, 110).

## **Nietzsche**

### **Nietzsche and Problems with Knowledge**

It is Nietzsche's criticism of a Transcendental perspective, possibly inspired by Schopenhauer's critique of Transcendental philosophy, which can be argued to possibly anticipate the work of the Pragmatic philosophers and, at least to some extent, the proposition of Knightian uncertainty.<sup>11</sup> Like Nietzsche, the Pragmatists look to the future, not to the past, as the focus of both human endeavour and of philosophy in general. As Nietzsche says man is, 'more sick, more uncertain, more mutable, less defined than any other animal, there is no doubt about that [since he is] ... eternally oriented towards the future'.<sup>12</sup> Such a preference for the future brings with it problems of verifying the certainty of knowledge, especially in light of the general observation that Nietzsche views human knowledge as being substantially limited by the limited perspective from which one perceives reality. All knowledge is derived from, and in some respects limited to, the individual perspective of the observer according to Nietzsche.

It is argued that it is in these canyons of the mind, between these disparate perspectives, that the Nietzschean anticipation of Knightian uncertainty may well have been born. In this way, Nietzsche heralds the introduction of a more intense awareness of problems associated with the establishment of certain human knowledge. As Strauss indicates, the emphasis in Nietzsche is away from the universal and the Transcendental, and toward the disparate individual perspective; towards the problems surrounding the establishment of any certainty, which might well be associated with those disparate perspectives.

Nietzsche indicates that the highest achievement ... is in the last analysis not the work of reason but of nature; in the last analysis all thought depends on something untouchable 'deep down,' on a fundamental stupidity; the nature of the individual, the individual nature, not evident and universally valid insights, it seems, is the ground of all worthwhile understanding or knowledge (Strauss 1983, 189-90).

### **Nietzsche's Critique of Transcendental Knowledge**

By arguing that if the Kantian glimpses of the Transcendental realm are either indecipherable, or impossible, Nietzsche indicates that these glimpses cannot form part of human knowledge in general. More specifically, these glimpses of the Transcendental realm cannot be used to correct sense perception. Specifically, Nietzsche argues that all human knowledge is derived from engagement with reality, without the touchstone of the Transcendental realm, even though the Transcendental realm is largely unintelligible to Kant.<sup>13</sup>

Partly as a result of Nietzsche's questioning of the Transcendental realm, the presuppositions of all Idealist philosophy generally came under intense questioning by other philosophers. More specifically, in a remarkable anticipation of future developments in philosophy, particularly Pragmatic philosophy, Nietzsche cautions all philosophers about the 'dangerous old conceptual fable which posits a 'pure, will-less, painless, timeless knowing subject', as well as accepting the

essentially self-contradictory concepts like, ‘pure reason’ (Nietzsche [1887] 1996, 98).<sup>14</sup> The central problem of such a fable is, among other things, that it fails to appreciate the intimate connection of knowledge with existence itself. As Nietzsche argues,

for these [self-contradictory concepts] always ask us to imagine an eye which is impossible to imagine, an eye which supposedly looks out in no particular direction, an eye which supposedly either restrains or altogether lacks the active powers of interpretation which first make seeing into something – for here, then, a nonsense and non-concept is demanded of the eye. Perspectival seeing is the only kind of seeing there is, perspectival ‘knowing’ is the only kind of ‘knowing’ [brackets added] (Nietzsche [1887] 1996, 98).<sup>15</sup>

Since Nietzsche indicates that, if a Transcendent perspective cannot exist, then Transcendental knowledge of any aspect of human existence cannot be intelligible for Nietzsche. Post-Nietzschean knowledge, therefore, depends on the standpoint of the agent within reality, along with ‘the will to power’, in the absence of any pretence about an ability either to know, or to have any information of, the Transcendental domain (Dannhauser [1963] 1987, 845). Knight may well have possibly taken up this view of Nietzsche, albeit indirectly through a largely Pragmatic influence, in rejection of scientific explanations of the world as purely objective. As Knight argues,

We cannot and under no conceivable conditions could we either have any experience without knowing it or know anything without it’s being a part of our experience. The problem then is to get a certain view of experience; in the poet’s language, to “see life singly and see it whole” (Knight 1913b, 2).

If all knowledge must come from disparate standpoints, and if there is effectively no Transcendental perspective that man can assume at any time and in any way, then Nietzsche essentially questions the idea that

Transcendental knowledge can somehow verify sense perception (Kant [1787] 1929, 59). As Nietzsche argues,

all kinds of transcendentalists have once again won the day – they are liberated from the theologians: what luck! – Kant revealed to them the secret path along which they may from now on, in independence and with the greatest scientific respectability, pursue their ‘heart’s desire’. Likewise: from now on, who could hold it against the agnostics if, as worshippers of the unknown and mysterious in itself, they now pray to the *question-mark itself* as God? (Nietzsche [1887] 1996, 131).<sup>16</sup>

Some critics of Nietzsche argue that Nietzsche’s criticism of Kant is defective, since Nietzsche’s knowledge of Kant is derived mainly from Schopenhauer’s interpretation of Kant, rather than from Nietzsche’s own reading of Kant. One might well argue that the version of Kant that Schopenhauer offered to Nietzsche was not completely free from Schopenhauer’s own interpretation. In some respects, this criticism of Nietzsche can therefore be argued to be partially correct.<sup>17</sup> For example, it can be argued that Nietzsche misinterprets Kant, by maintaining that knowledge is purely an abstract concept for Kant. Here, Singer has noted how Kant emphasises that knowledge, ‘is only possible because our mind plays an active role, organising and systematising what we experience’ (Singer [1983] 1997, 117). In addition, Dewey argues that Kantian knowledge is in some way a middle ground such that, ‘The Kantian epistemologist has formulated the claims of both schools [i.e. the rationalist and the sensationalist] in defining the judgement as the relation of perception to conception’.<sup>18</sup> However to dismiss the entire critique of Kant by Nietzsche, on the basis that Nietzsche’s understanding of Kant might be deficient in some way, can also be misleading, apart from being dismissive of the genius of Nietzsche.

### **Promises and the Transition from Contractual Debt to Moral Guilt**

If knowledge is of this more perspectival kind, as suggested by Nietzsche, then it becomes difficult for humans to make promises about

the future. Moreover, if man can make promises about the future with certainty, then there would be no need to make promises in the first place. Here, humanity might equate to the future itself. As Nietzsche indicates,

To think in terms of causality, to see and anticipate from afar, to posit ends and means with certainty, to be able above all to reckon and calculate! For that to be the case, how much man must have become *calculable, regular, necessary*, and even to his own mind, so that finally he would be able to vouch for himself *as future*, in the way that someone making a promise does! (Nietzsche [1887] 1996, 40).<sup>19</sup>

These difficulties, regarding the making of promises, translate into the economic sphere through the making of contracts that cover future periods. Here, the debtor makes a promise to the creditor about his/her ability to repay a debt, even though problems exist with forecasting future events. Creation of debt, through the issuance of promises made on the basis of imperfect knowledge, leads to the existence of guilt and the prevalence of oppression (Nietzsche [1887] 1996, 44-47). In other words, Nietzsche argues that the existence of cruelty and oppression is supported by a humanity that is too ambitious; a humanity that tries to overcome problems with knowledge that it cannot overcome. Cruelty is one way of regulating this ambition, by punishing one for making promises about a future that man has little, or no, reliable knowledge of (Nietzsche [1887] 1996, 48).

### **Nietzsche and Knightian Uncertainty**

While the above analysis provisionally establishes the possibility of a general linkage between Nietzsche and the idea of Knightian uncertainty, a somewhat more definite linkage is yet to be established. However, since only passing reference to Nietzsche is made in most of the published work of Knight, it remains rather difficult to establish this more definite linkage between the two authors. Yet, by referring to some early work of Knight, which remains unpublished, it may be

possible to begin the work of establishing a somewhat less ambiguous linkage. Accordingly, in order to more fully appreciate the impact of Nietzsche on Knight, chapter six of Knight's Ph.D. is of assistance.

**Economics and Change.** By way of introduction, Knight argues that the idea of change in economics cannot be incorporated into economic theory without first linking the understanding of consciousness, in general, to economic theory in particular. At the outset of chapter six, Knight argues that in order to make economic analysis more consistent with reality, it is necessary to abandon the assumptions that all knowledge of social relations is fixed, and that knowledge of these fixed relations is either perfect, or can be assumed to be perfect.

That the world we live in is pre-eminently a world of change is familiar to the degree of being commonplace. Of the two factors in industrial society, both the world of nature and man himself, individually and racially as well, undergo constant change and in addition are liable to sudden and apparently very irregular mutations of considerable magnitude (Knight 1916b, 163).

Although change is a part of everyday life, it can be of two main types; predictable change and unpredictable change. Predictable change would involve the operation of laws that were fixed and that apply in all times and places, much like the laws of the physical universe. Such forms of uniform change are possibly conceivable under a philosophical regime such as German Idealism, where tendencies toward ideals are generally thought to be in operation. However, in a manner somewhat consistent with Nietzsche, Knight questions the very basis of these uniform changes by arguing that human consciousness is constantly re-evaluating its relationship with the world. Such re-evaluation precludes the existence of definite and unchanging laws in the realm of human decision-making.

It is conceivable that all changes might take place in uniform ways, or according to definite laws which might be so generally and surely known that perfect knowledge of both present and