

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

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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 into 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

JEL classification:

A12, B10, B30, B40, D11, D81

1. 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.¹ 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*.²

In searching 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).³

Apart from German literature, philosophy was also an important aspect of the intellectual landscape from which the proposition of Knightian uncertainty was made.⁴ 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.⁵ 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.⁶ Finally, section