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Economics Is Not All of Life

Ross B. Emmett¹

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Thirty years ago, I took up a task that many starting professors of economics have to fulfill: I was assigned to teach first-year economics. I had taught the course before as a graduate student, but now I had the opportunity to choose the textbook I would use. I chose the newly released text by Edmund Phelps (1985) titled *Political Economy: An Introductory Text*. My reason for this unusual choice was simple: Phelps's book came close to addressing the questions about economics I was interested in; a fact that reflected my own unusual relationship to the discipline I had chosen. My background was not in economics, but in intellectual history, theology, philosophy, and even business. I entered the economics discipline as I was exiting the evangelicalism I had grown up in. Thus, my education as an economist shared time with my education in the rich tradition of the Anglican Communion that I entered then, and I have remained in since.

Right from the start, Phelps informed the student that the questions to be addressed were bigger than 'individual choice in the face of scarcity,' the 'ordinary business of life,' or whatever other definition of economics one usually encounters in a textbook. "Political economy," he wrote, "is ultimately the study of the effects of various mechanisms, and systems of mechanisms, used (or usable) by societies to operate their social economy" (1985, 27). Not only was our study to be about institutional design and choice, but the individuals in these societies were, Phelps told us, more than efficiency optimizers. They were also people who were in the process of choosing their own values; individuals who, as Frank Knight once said, had an interest not only in satisfying their existing wants or avoiding risks, but also seeking to find more and better wants (Knight 1999a/1923). Thus, not only did Phelps make social and political decisionmaking a focus of his disciplinary

1. James Madison College, Michigan State University, East Lansing, MI 48825.

introduction alongside economic choice, but he also cast the inquiry as inevitably ‘normative.’

In the marketplace, Phelps’s book flopped. I was one of probably only a handful of adopters, and my experiment using it lasted only one year. I realized quickly that, despite my own enthusiasm, the students were uneasy with my love of the ‘big questions,’ which to them implied vague answers to test questions. But when I recently read Phelps’s new book, *Human Flourishing* (2013)—a book about how innovation has enriched our lives and the values needed for an innovative society—all those old themes came back and the book felt quite familiar to me. I had not remembered innovation as being a big theme of the textbook (indeed, the word only appeared once in the index, pointing to a single paragraph on the topic), but the way Phelps wove normative, theoretical, and empirical studies together made me realize how much I had liked his earlier text. And I did remember the *First Things* article in which Phelps had said:

There is more to economics than the desire to consume and to avoid risk.

Which brings us a step closer to connecting morality and economics. Morality, after all, is more than obedience to the rules of social conduct; to be moral is to foster the betterment of humankind. If we place innovation at the center of economics, then we in effect make a sweeping assertion about “human nature” for we claim, at some level, that man is an innovator. (Phelps 2009)

I’ll return later to innovation, which has become a favorite theme for me and is an area of economic investigation that can be enriched by a Christian view of human beings. Instead, let me say first a few things about two economists I had encountered before I used Phelps’s text who have helped me to think about the relation of Christian theology to economic analysis. The two economists are Richard Whately and Frank Knight.

Whately was one of the first names that my thesis supervisor, Anthony Waterman, gave me when during my first year of graduate study in economics I assisted him in surveying the history of economists’ writing on the relation of Christian theology and economics (Waterman 1987). An Anglican churchman known for his analysis of logic and rhetoric, Whately was also an economist. Indeed, he was probably the only person who has ever gone straight from economics professor to archbishop! (He left the Drummond Professorship of Political Economy at All Souls College, Oxford University to become Archbishop of Dublin in the Church of Ireland.) Whately (1832) was a defender of the relevance of the principles of laissez-faire economic thought for Christian moral theorists.

(The opposite claim—that Christian morality was relevant for proper social and economic thinking—did not, in Whately’s estimation, need a defense.) The close link made between political economy and utilitarianism had led many Christian moralists in England to dismiss economics because they associated it with disregard for the poor and a willingness to accept utilitarianism’s ‘low’ view of human beings. Remember Wordsworth (1822) pleading with us to “Give all thou canst; high Heaven rejects the lore/Of nicely-calculated less or more”? Or the sermons of F. D. Maurice, somewhat later, convincing Charles Kingsley and others to help form the Christian Socialist Movement, in order to take a cooperative, non-adversarial approach to England’s social problems? Whately argued, instead, that scientific investigation of *catallactics* (Whately’s preferred term for the study of market exchange) was independent of moral inquiry, in all its various forms. The science of exchange was not any more hostile to Christian morality than Copernican astronomy was. But Christian social thinkers would ignore economic principles to their peril.

While I was not completely in agreement with Whately’s positive-normative distinction, I had already accepted certain basic principles of economics, such as the mutually beneficial nature of exchange and the constrained nature of human action necessitating continual tradeoffs among values (opportunity cost), as being useful for any investigation of political economy. Indeed, even before I entered economics, I had argued that the Christian view of human nature implied that every choice a human made carried with it both positive and negative consequences; no choice—short of Jesus’s redemptive act on the cross—could be wholly good. Opportunity cost seemed to me a logical extension of the basic human problem, a point driven home to me by reading Vivian Walsh’s little book *Scarcity and Evil* (1961), the novels of Leo Tolstoy and Fyodor Dostoyevsky, the opening chapter of Knight’s *The Economic Organization* (2013/1951), as well as Barry Gordon’s (1989) study of *The Economic Problem in Biblical and Patristic Thought*. Gordon’s work intrigued me because it suggested that the Judeo-Christian tradition had a range of possible solutions to the problem of scarcity, both institutional and personal, that might not even be considered by economists. Indeed, I was delighted shortly after reading Gordon’s book when I learned that Knight used to tell students that the economic problem would never be solved until we all adopted the “St. Francis model”—reducing our wants below the level of the resources available. Knight, of course, didn’t think this was possible, but I was surprised to see the Christian ascetic model stated so precisely by someone who had abandoned the faith.

What Whately, Gordon, and others made me realize was that, as a Christian, I needed economic theory to understand the world of market exchange and the rules societies created in their efforts to constrain its effects. I also began to realize that economics was not incompatible with Christian understandings of the human

person and human flourishing. Exchange in particular was often viewed positively and understood as part of human cooperation even if, as motives, avarice and greed were discouraged. Philip Wicksteed's principle of "non-tuism" convinced me that economic theory requires us only to accept that people have purposes, and that however egoistic or altruistic those purposes may be, markets will coordinate exchanges well as long as one participant in an exchange does not take the well-being of the other participant in that exchange as her primary purpose (Wicksteed 1910).

The pursuit of graduate education in economics was, for me, the pursuit of an answer to a problem in intellectual history. I was absorbed by the way economics had come to replace theological ethics as the underlying way of thinking used to address social problems. Whether in its Marxist or neoclassical forms, economics had transformed the language of social analysis in such a way that theological inquiry sounded like a foreign language. Why and how had that happened? My instincts told me that something important had been lost in the transition, although I quickly began to realize that much had also been won. Two years into my graduate studies, as I was completing my coursework, Anthony Waterman hosted a conference for Anglican economists. My own contribution to that conference was a plea to keep alive some of what had been lost. During a break, in casual conversation, the late Paul Heyne asked me if I had read any of Knight's work. I replied that I had, both while helping with Waterman's survey and independently. Heyne, in his quiet way, suggested that revisiting Knight would be probably be important for my project.

It was at that point that I re-read Knight's essay "Ethics and Economic Reform." The line by Knight that caught my attention said quite starkly: "evil rather than good seems likely to result from any appeal to Christian religious or moral teaching in connection with problems of social action" (Knight 1999b/1939, 47). Knight argued that the problems of social action in the impersonal context of rules for liberal democratic society cannot be resolved by appeals to Christian personal morality. Given his proclivity to attack Christian moral principles frequently in class, is it any wonder that students at Chicago used to say "There is no God, but Frank Knight is his prophet"? (Buchanan 1982, xi).

But I had also read "The Ethics of Competition" (Knight 1999a/1923), in which Knight had held the market up against Stoic and Christian ethics and found it wanting. And at the end of "Ethics and Economic Reform," Knight (1999b/1939, 65) decried the current lack of "an adequate ethics," because without it, "economics has little to say about policy." Indeed, from the late 1930s until the end of his life, Knight's project was to identify the key principles that were required for the maintenance of a free society. While a central part of that project was the criticism of religious ethics, an equally important part was a refusal to reduce

discourse in a free society to either economics or politics. The science of economics, he argued, provided a few principles that were relevant to understanding the consequences of impersonal human action but unreliable as predictive tools of policy analysis. Democratic political principles were also needed. Knight (1960) examined the ability (or lack thereof) of democratic governance to find rational norms through voting and discussion. But the glue that held his political economy together was the requirement for a separate and independent social ethics. In the absence of the assumption that values would converge in a democratic society, common agreement on values would require significant discussion. At the same time, Knight was under no illusion that current ethical norms were sufficient—he criticized every ethical system known in his time. He maintained at the end of his life, as he had at the beginning, that life was ultimately an exploration in the field of values, not simply an exercise in the satisfaction of a generally accepted set of needs and wants.

What does Knight's analysis have to do with religion other than the criticism of religious ethics in modern society? After years now of reading and discussing Knight's work, I keep returning to three themes in his work, themes that Christians and perhaps other religious persons can appropriate from his work. The first is the affirmation of the duality: Life is economic; economics is not all of life. The effort of many religious ethicists to segregate life into the realm of this world (economic and political) and the realm of the next world (spiritual) is problematic on both scores. Similarly, following George Stigler and Gary Becker (1977), Knight's students at Chicago extended the first proposition—life is economic—so far that one wondered if any room remained for Knight's second proposition—economics is not all of life (Emmett 2009a). The fact that Knight refused to yield on the second is one of the reasons I have argued that Chicago rejected Knight (Emmett 2009b). To affirm both may require, as I argued in a paper presented at the History of Economics Society meeting when Anthony Waterman was honored as a distinguished fellow, a sacramental perspective (Emmett 2007).

Secondly, Knight was tenacious in his opposition to those who tried to claim special authority *in a democratic society* for their ethical or scientific viewpoint. In the same way that exchange value cannot be known outside the market process, societal values cannot be known outside the democratic process of discussion. Knight never argued that Christians could not bring their moral values into that discussion, but he did insist that those values should not be given authority simply because of religious claims to truth. The relation of Christianity to democratic discussion is a difficult one, and one can find both Christian affirmations and rejections of democratic openness (see Hecló 2009 and Kraynak 2001 for different considerations of the problem). While Knight's personal rejection of religious

belief came through clearly in his work, his opposition to religious ethics was primarily rooted in what he saw as the church's claim to a special authority.

Finally, from the start of my study of Knight's work, I recognized in it a man who deeply understood the appeal of the certainty of the world that had been given up in pursuit of a liberal society, but who nevertheless was willing to live constantly in the uncertain presence of freedom. I use the word uncertainty consciously, of course, because it is the term most often associated with Knight, and the theme of his famous book *Risk, Uncertainty and Profit* (Knight 1921). Economists like to reduce the meaning of the word to 'uninsurability' or 'situations for which settled probability distributions cannot be formed.' But for Knight the meaning went much farther. Part of the economic meaning he ascribed to the term lies in the necessity for the entrepreneur to trust individuals under her direction to make decisions that would not endanger her enterprise (Emmett 2011)—a moral judgment. But even that linkage of moral judgment and economic decision does not convey the entirety of Knight's rambling discourse on economics and ethics in modern life across the second half of his treatise. Here was a man who understood that the uncertainty of modern life made all decisions both free and tragic (Emmett 1999). That duality continues to attract me to Knight's work.

Uncertainty also brings us back to innovation. The theory of the entrepreneur in Knight's famous book is often criticized for being theoretically 'thin': entrepreneurship is not a personal trait but a function. There is no vision sparking creative destruction (Schumpeter 1942), or alertness to entrepreneurial opportunity (Kirzner 1979). I suspect the reason is Knight's unwillingness to affirm indirectly the truthfulness of any particular moral theory by using it to fill in the content of human nature. The same can be said for the economic profession's inability to account for innovation within the confines of its equilibrium models. When innovation cannot be explained as more than technical change, and hence as a function of the investment in research and technical knowledge, is it surprising that innovation is made to join the list of 'market failures'? The result is statements like that in the 2010 *Economic Report of the President*: "overwhelming evidence shows that innovation creates positive 'externalities' [, . . . thus], on its own the market will produce less innovation than is optimal. Public policy therefore has a powerful role to play" (p. 260).

While I appreciate the concern that religious ethicists have for the lot of the poor, they often miss the opportunity to bring their perspective to bear on innovation—the primary driver of economic growth, according to most economists. And, as Deirdre McCloskey repeats often, the improvements that come from innovation have greatly benefited the poor (see, for example, McCloskey 2010). Christian social ethics has the resources to enrich our conversation about innovation.

Christians believe that humans are made in the image of God. God is a creator, and there are rich resources to draw upon for a theology of creativity and improvement. Let me outline three aspects of such a theological vision that could assist society's discussions of innovation, economic growth, and, yes, even inequality.

First, the impetus (and, I might add, the right) to create things is part of human nature as *Imago Dei*, and we should not be surprised that people seek to use their creativity to improve the lives of those around them. Innovation cannot be thought of as just technical tinkering—the creation of what a scientist realizes they can do. Human conceit will often mislead the scientist (and government/university bureaucrats) into thinking her new creation is an obvious success. But the market test is needed. Markets provide a context in which our creativity can be channeled toward the creation of things that will provide value to others. Market success is required for innovative improvement.

Secondly, Trinitarian theology teaches us that the individual only exists in community. Adam Smith understood this, but modern economics sees individuals in isolation, interacting principally through impersonal markets. A theory of innovation needs a morality of human action in community, where human action in market and non-market contexts connects us. Theologians have tended to emphasize personal relations like the family and church when discussing community. Fair enough, but Tocqueville was headed in the right direction when he included business interactions in civil society's voluntary associations.

Finally, incarnational theology provides us God's charity and generosity as a model of our innovation. Innovative improvements are acts of generosity: an innovator may receive far less of the value created by their improvements than their customers do. And most of the time they are happy about that (fallen human nature being what it is, we can't say all of the time!). My TEDx talk "Innovation as an Act of Love" ([link](#)) tries to capture some of this theme and consider its possible meaning for economics and public policy.

Despite the fact that every part of life has its economic aspect, life itself is more than economics. Whether we think about choice, social improvement, or innovation, our consideration of the problem requires us to consider both what economics can teach us and what we can learn from moral perspectives. Christian theology can contribute to the latter task.

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About the Author



Ross B. Emmett is Professor of Political Economy and Political Theory & Constitutional Democracy at James Madison College, Michigan State University. A historian of economic thought, his work is concerned with the constitutional political economy of a free society and the enhancement of the bourgeois virtues that support it. He is currently writing a biography of Frank Knight, co-authoring a book on T. Robert Malthus's contributions to constitutional political economy, and planning a book on the history of the relation of economics and Christian theology since the 1830s. His email address is emmettr@msu.edu.

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As the coronavirus brings the global economy to a halt, some leaders are seriously suggesting that a few should die so the many can live. Such a suggestion is nothing less than moral bankruptcy, says Martin Gak. Health workers on the front lines of the global coronavirus pandemic have reported that along with the overwhelming caseload, medical personnel are being forced to make excruciating choices to ensure the survival of patients. For instance, where medical resources like ventilators have become scarce, choosing which of two critically ill patients receives a life-saving resource presents Emmett, RB 2014, 'Economics is not all of life', Econ Journal Watch, vol. 11, no. 2, pp. 144-152. Emmett RB. Economics is not all of life. Econ Journal Watch. 2014 May;11(2):144-152. Emmett, Ross B. / Economics is not all of life. In: Econ Journal Watch. 2014 ; Vol. 11, No. 2. pp. 144-152.

@article{963e0b2b4f3a474bb4857a17435084f7, title = "Economics is not all of life", abstract = "I trace the arc of my thinking about political economy and Christian theology from my early interactions with the work of Richard Whately and Frank Knight to more recent economic and theolo Economics helps individuals and businesses to make informed decisions in different fields, including finance, governance, law, administration, finance among others. Typically, all people in the society are affected by economics in one way or another. It is not only important in education but also in making critical analysis in different situations. Economy is run by people and we know that humans are not perfect (sane would be apt word here). Hence, we need some powerful institutions to regulate the economy and to ensure that it runs smoothly. These institutions are "The Central Bank"™ of the economy and "The Government"™. Say, the Central Bank decides to increase the rate of interest. This simple change in the economy will impact every element of the economy. Economics has an enormous effect on the daily lives and wallets of all people, even if they aren't actually involved in economic studies. The principles of supply and demand play out everyday for every person making purchasing decisions on goods and services, and in keeping or finding a job. Changes in circumstan. Continue Reading.