



# On the Usefulness of a Flat Economics to the World of Faith

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[LINK TO ABSTRACT](#)

In his introduction, Daniel Klein asks “Is economics suffering from an undue flatness?” and, if it does, whether “religious or quasi-religious formulations” might provide the needed depth (2014, 97). Klein joins some august company (Deirdre McCloskey, Vernon Smith) in concluding that there is too much flattening and proceeds to raise some provocative questions about the role religion might play in addressing the problem.

Before we get to whether religion can help, it will be helpful to consider the flatness. There is little question that economics flattens the perception of human nature and human existence. Focus is a good thing in solving problems. Occam’s razor is helpful, unless it eliminates key variables. A paper map is a flat representation of geographic data, yet its flatness is integral to its usefulness. The map is portable in a way that a ‘deeper’ representation is not. Deeper representations provide other useful functions. For example, in Guatemala City there is a city-block sized relief map of Guatemala, which provides a sense of the country’s geography not available from even the most detailed paper map marked with contour lines. But the relief map cannot be folded up and put in my pocket, and so it is less helpful in finding my way from Antigua to Chichicastenango than is the paper map. So flatness alone is not a problem—only what Klein terms *undue* flatness.

If we think about the degree of flatness as the result of a tradeoff between the costs and benefits of more detail, we’ll end up with different maps for different purposes. And flatness is really a multidimensional issue. Thus a highway map is flat in not representing a variety of things. It won’t tell me the religious preferences

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of the people in the area I am driving through or population density or the level of economic activity. The absence of such details could be either a feature (if I am driving from A to B, then I don't particularly care about them and they'd likely clutter my map) or a bug (if I am trying to find a place to live).

## Undue flatness?

To what extent is economics unduly flat? Compared to the Christian conception of human nature, what McCloskey (2006, 135) terms "Max U" is certainly flatter. Is it unduly so? It is true that for Christians utility ought not to be just about material wealth. As Proverbs 30:8 puts it: "Remove far from me vanity and lies: give me neither poverty nor riches; feed me with food convenient for me." That attitude is not what immediately comes to mind when I think of Max U, although one could play with utility functions to incorporate it. But that acknowledgment does not mean that a utility maximization model is unduly flat; it rather depends on what we are trying to accomplish. If the goal is a mathematical model, Max U's flatness offers significant benefits. The flatness allows us to see the question being modeled more clearly in at least some cases. Of course, not all (or perhaps even many) models are useful, so relentlessly applying Max U is not always going to yield benefits that are worth the cost. But so long as we remember that models are tools rather than reality, some models are useful. Indeed, one of the strengths of McCloskey's *Bourgeois Dignity* (2010) is that she deploys economic tools effectively to make the point that a step beyond just economics is needed to explain the Industrial Revolution (see Morriss 2010).

Most of the relatively flat models deployed by economists are not, of course, used to show the limitations of economics; instead they are applied, and helpfully so, to an array of questions. For example, the economics of religion literature offers the insight that more demanding denominations are more successful than less demanding ones. The more demanding denominations, such as those that want their members to fast on holy days or give up dancing, raise the average intensity of belief among members by requiring practices that are less costly for believers than for skeptics. A higher average intensity makes participating in the religion more rewarding for members. As Laurence Iannaccone (1998, 1482) puts it, "the pleasure and edification that I derive from a worship service does not depend solely on what I bring to the service (through my presence, attentiveness, public singing, and so forth); it also depends on how many other people attend, how warmly they greet me, how well they sing, how enthusiastically they read and pray, how deep their commitment, and so forth." As Iannaccone notes, enriching the "religious production function" and focusing attention on modeling religion as a

specialized firm or club, rather than focusing on a simple model of personal utility maximization, can enhance understanding of the institutions (*ibid.*, 1479-1485). But there is nothing particularly ‘religious’ about modeling religion as a club, other than the greater understanding of how religion affects participants that comes from understanding religion itself. I don’t think Iannaccone is making economics less flat; I think he’s just found different terrain to map.

Similarly, Roger Finke and Rodney Stark (2005) explain the relative successes of Baptists, Congregationalists, Episcopalians, and Methodists in nineteenth century America by examining the incentive structure facing the clergy in each. In short, Methodist circuit riders were highly incentivized to deliver a good experience because they wanted someone to invite them home afterward for dinner and a place to stay, and Baptist preachers needed people in pews to put money in the collection plate to fund the church and pay their salaries. Meanwhile, Congregationalists and Episcopalians had state support and endowments that disconnected their rewards from their efforts. Again, I don’t see this as a move away from flat modeling, just mapping a different space.

That all this is useful is demonstrated by the reaction of the clergy from a variety of Christian denominations at a conference I organized around this literature. The participants found these insights exciting. While I have no doubt that concepts like those which Klein describes in his introduction (coherence, larger purpose, and universal benevolence) could prove useful, readings based on a pretty flat utility function and that did not take such things into account provided ideas that sparked a rich and interesting discussion with relevance to both economists and clergy.

## **Is something missing from economics?**

Economics’ power comes in part from its ability to explain a great deal with a remarkably simple model of human motivation. An important part of that power rests on the testability of hypotheses generated by the model. The best parts of my graduate education in economics at MIT were my labor economics and industrial organization classes, in which a series of superb economists (Henry Farber, Robert Gibbons, Paul Joskow, Thomas Lemieux, Michael Piore, and Jean Tirole) took us through models and tests of hypotheses in various papers. Farber’s dissecting of the methodologies of quantitative papers in labor economics, Piore’s combination of qualitative and quantitative insights into labor markets, and Joskow and Tirole’s team-taught IO course mixing game theory and econometric evidence were particular highlights. If anything made me a believer in the methods of economics, it was those classes.

But the simplicity of the Max U approach can also mislead. For example, Benoit Mandelbrot and Richard Hudson's *The (Mis)Behavior of Markets: A Fractal View of Financial Turbulence* makes a compelling case that much of modern finance is built on a set of incorrect assumptions about the distribution of price changes in financial markets. If they are correct, and they make a persuasive case that they are, then this is undue flatness. Why haven't the theories been improved based on empirical evidence to the contrary? Mandelbrot and Hudson offer a disturbing explanation:

Habit and convenience. The math is, at bottom, easy and can be made to look impressive, inscrutable to all but the rocket scientist. Business schools around the world keep teaching it. They have trained thousands of financial officers, thousands of investment advisors. In fact, as most of these graduates learn from subsequent experience, it does not work as advertised; and they develop myriad ad hoc improvements, adjustments, and accommodations to get their jobs done. But still, it gives a comforting impression of precision and competence. (Mandelbrot and Hudson 2006, 105)

Although Mandelbrot and Hudson don't use the terminology, this is just turning the lens of public choice theory on ourselves. The results are as unflattering as they are when we use it to understand politicians and bureaucrats.

## **Does faith add to economics?**

So there is certainly plenty missing from modern economics. But can we add things in without losing more than we gain? Klein asks in his introduction whether there is something that our faiths bring to economic thinking that is lacking or even precluded by mainstream economics. I don't think that there is. I do find that much of religious thinking about economics is horribly confused. But the problem is more that writers on religious doctrine have failed to understand the economics than that the economics is hampered by a lack of religious tools.

Fr. Michael Butler is a close friend of mine and the Orthodox priest who led my family into the Church. When I collaborated with him on a monograph (Butler and Morriss 2013) jointly informed by economics and our faith, I was pleased at how few obstacles we found to integrating the two. Since Orthodox theology lies at the more mystical end of the spectrum of Christian theology, I believe our ability to reconcile (or at least simultaneously make use of) the faith with economics offers some strong evidence of the lack of a more general problem. For example,

Orthodox Christianity has a clear understanding of the fallen nature of man, and that should inform our choice of methods with which to address social problems. As we argue, “man’s fallen nature should make us wary of centralizing power in the hands of government officials who are not exempt from that fallen nature” (ibid., 73). At the same time, in one of Orthodoxy’s most central prayers, the Jesus Prayer, we pray repeatedly “Lord Jesus Christ, have mercy on me, the sinner.” And a consistent refrain in virtually all Orthodox services is the refrain: “Lord have mercy.” This conception of human nature as fallen and in need of mercy is entirely consistent with the economic conception of humans as motivated by self-interest. There may be interesting cases to model of people with richer utility functions that include universal benevolence, but we get surprisingly far in understanding and predicting behavior with the quite flat assumption of self-interested individuals. So I see no inconsistency between my faith and my economics.

Does my faith add something to my economics? I find that religious ideas help me to understand economics. Robert Nelson has used theological concepts to great effect in explaining differences among economists (Nelson 1993; 2002) and between economists and environmentalists (Nelson 2010). And having converted to Orthodoxy after converting to economics, I can certainly say that my faith adds a great deal to my life, filling a gap that economics cannot. It has also opened areas of inquiry that I have just begun to explore and which may in time yield results in my life as an economist. One example is thinking about the evolution of the doctrines within the institutions of the Orthodox faith, as compared to the evolution of doctrine within Catholic and Protestant institutions. Orthodoxy is more hierarchical than most Protestant denominations but lacks the single central authority of Catholicism. Do the different institutional structures explain the differences in doctrinal evolution? I suspect they play a role, and that helps me make sense of the different paths of Catholicism and Orthodoxy since 1054. Did the experience of Western Europe’s myriad competing political jurisdictions contribute to the fracturing of western Christianity into myriad doctrinal congregations, by incentivizing rulers to accept and support doctrinal innovations, while the long periods of political stability in Orthodox lands (Byzantium, imperial Russia, the Ottomans) lacked those incentives? Again, I suspect so.

An unflattering (to my church) example of how economics and faith might interact to provide explanatory power is the relationship between church and state in Orthodox countries. Greece, Romania, Russia, and Serbia do not top lists of well-governed nations through history. Recently, monks of the Vatopaidi monastery on Mount Athos, an extremely holy place in Orthodoxy, appear to have been involved in some at-best questionable financial dealings with the Greek state (Lewis 2010). One reason for such problems might be the Orthodox conception of *symphonia* as the organizational principle for church-state relations, a conception

that poses practical issues for anyone with even a passing acquaintance with public choice theory. These issues are worth exploring using an understanding of both the faith and economic theory.

So perhaps the better question is “does economics add something to religious faith?” I think the answer is unambiguously “yes.” Man’s fallen nature makes it good for humanity that we do not depend on the benevolence of butchers and bakers for our meat and bread. As F. A. Hayek notes,

it is one of the necessary conditions of the extension of human co-operation beyond the limits of individual awareness that the range of such pursuits be increasingly governed not by shared purposes but by abstract rules of conduct whose observance brings it about that we more and more serve the needs of people whom we do not know and find out needs similarly satisfied by unknown persons. (Hayek 1988, 112)

Honest market exchange is a good thing. A merciful God has not left us dependent on others’ benevolence, even as He continues to hope we will show the mercy to others that we seek from Him. Nor does embracing market exchange absolve us of the requirement to serve our brothers and sisters; rather it enables us to do so in new ways by freeing us from the drudgery of existence in the Malthusian trap where humanity labored before the Industrial Revolution. I view the twelvefold increase in well-being that revolution unleashed as akin to the master entrusting great wealth to his servants in the Parable of the Talents (Luke 19:12-27). With more, we are called to do more. And, as Fr. Robert Sirico (2000) of the Acton Institute has noted, God has given us the incredible opportunity to join Him in the exhilarating process of Creation by providing us with opportunities to do so in the business world. Fortunately, even those who don’t answer that call for religious reasons still produce benefits for others by engaging in honest productive activities in search of material rewards. But I think it is more likely that the relatively flat world of economics can provide value to the less flat world of faith than the reverse.

## Conclusion

Economics has a great deal to offer precisely because it has a remarkably clear, simple model of human behavior that allows us to formulate testable hypotheses about the world. Yet turning everything into maximizing behavior does threaten to make economics tautological and uninteresting. Expanding the scope of understanding makes the job more difficult but also more interesting. The

challenge is to balance the power of the model against the potential of greater complexity.

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