

## The Economics of Believing

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Economics is everywhere. You just have to know where to look. Like at the cathedral I recently visited in Portugal.

Many of you probably heard of “Pascal’s Wager.” This is an argument for religious belief put forward by Blaise Pascal, a 17<sup>th</sup> century French philosopher, mathematician and physicist. The [entry in Wikipedia](#) summarizes it well:

*Pascal argues that a rational person should live as though God exists and seek to believe in God. If God does actually exist, such a person will have only a finite loss (some pleasures, luxury, etc.), whereas they stand to receive infinite gains (as represented by eternity in Heaven) and avoid infinite losses (eternity in Hell).*

An economist immediately sees the flaws in this argument.

The first is that it *ignores time value*, the fact that people value more highly things in the immediate than the distant future. Yes, the foregone earthly pleasures may be finite, but they are also imminent, whereas the infinite rewards and punishments of the afterlife are further away. If we assume a moderate degree of impatience (say, 5% per year) and equivalent value between the earthly and heavenly delights, then giving up between 14 and 15 years of short-term gains is worth as much *today* as the indefinite benefits of the afterlife. For the more impetuous, the break-even period is even shorter.

St. Augustine understood this. In his youth, he prayed: “Dear Lord, grant me chastity and continence, but not yet.” Augustine should be the patron saint of Net Present Value.

Pascal also *ignores the optionality* of the religious doctrine of redemption. Sinning does not automatically lead to eternal condemnation; it can be expunged with sincere contrition and forgiveness. Which is basically the same option that is bankrupting Obamacare. In Obamacare, the optimal strategy is to wait until you are sick before signing up for healthcare insurance where price differentials for pre-existing conditions are forbidden by fiat. Likewise, a well-timed penance can wipe out a lot of youthful dissolution, with no extra charge for pre-existing sinning.

But note again the importance of timing. The risk to this redemption strategy is an unexpected death outside of a period of grace, just like the risk to the Obamacare strategy is falling very ill outside the enrollment period. This is probably why people in high-risk professions – think of soldiers bowing their heads in prayer before going into battle – tend to be more religious than others. This factor probably also partly accounts for the modern decline in religion. These days, death is pretty predictable. A precautionary early religiosity is less needed than it used to be.

Now back to the crowd at the cathedral. The pious sees a display of religious conviction. Economic Man sees a lot optimizing behavior. Almost everyone is old. Which means that they are following the strategy that economic theory predicts: time value and optionality both push in the direction of a carefree youth followed by a faithful old age.

Economics is everywhere. And incentives matter.

### Portugal

I would be remiss if I did not briefly comment on Portugal. Lisbon, Sintra, Cascais, Óbidos, Nazaré. The totally wacky [Pena Castle](#), which makes [Mad King Ludwig’s efforts](#), which [probably got him murdered](#), look positively restrained. These are all amazing places. And this is just one small region

of the country.

Portugal proves once again that, when it comes to natural and man-made beauty, nothing beats Europe.

### *Merkel*

Angela Merkel, the Chancellor of Germany, has caused much clasp-ing-of-pearls-and-fainting-onto-couches in foreign policy circles by uttering the following words in response to some recent quality time with Donald Trump:

*The times in which we could completely rely on others are over to a certain extent. That is what I experienced in the last few days....That is why I can only say: We Europeans must really take our fate into our own hands.*

To which I can only say: Amen. It is about time that the 740 million Europeans, with their \$16.5 trillion of GDP, grew up.

Much of the negative reaction to Merkel's statement claims that America will now lose "influence" in Europe and on the world stage. However, the benefits of this "influence" are never explained. Likewise, how much we should be willing to pay for "influence" is never quantified. Nor is it ever explained why the rest of the world should be happy to live under American "influence."

This is precisely the type of flabby thinking that has created an America of perpetual warfare and debt. It also makes me wonder if the "influence" that the foreign policy *nomenklatura* is really worried about losing is its own.

### *Gerontocracy*

Theresa May, running for re-election as the Prime Minister of England, took on elderly voters. Then she beat a hasty retreat.

The proposal was to require older people to use more of their accumulated wealth, including the vast appreciation of their houses ([which is itself largely the result of cronyism](#)), to pay for nursing care. Some wit labelled this a "dementia tax" and [it was withdrawn within four days](#). God forbid that savings are actually used for their intended purposes.

Much is made about the direct impact of aging populations on developed economies. But way too little is said about the indirect impact through politics. Is it any wonder that gerontocracies do not produce dynamic societies?

### *Against Democracy*

This is the title of a book by Jason Brennan, a professor at Georgetown University. Like the economist [Bryan Caplan](#), Brennan explains in [this podcast](#) why we should take little comfort in democracy. If you have an hour, it's a recommended listen. If you want the three-minute version on why, as a recent libertarian tweet put it, "taxation with representation ain't so hot either," then the [Tale of the Slave](#) from libertarian philosopher Robert Nozick is still a classic.

### *Penn Jillette*

Here is [a great interview](#) with the libertarian magician in the *Harvard Business Review*. Mostly

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about his creative process and partnership with Teller, but too many great thoughts and asides to summarize briefly. A very short recommended read.

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### **I Wish That I Had Said That...**

*"The kind of man who wants the government to adopt and enforce his ideas is always the kind of man whose ideas are idiotic" by H.L. Mencken*

*"Dear X:*

*Thank you very much for the invitation. I am sorry to have to decline it.*

*As an avowed atheist, I could be considered a terrorist, according to a 2014 public declaration by the Saudi Interior Ministry. The declaration defines terrorism as "calling for atheist thought in any form, or calling into question the fundamentals of the Islamic religion on which this country is based."*

*I'm sure that there are plenty of closet atheists in Saudi Arabia, and they are probably doing just fine. But as a vocal advocate of atheism and rationalism, and as a humanist and a proponent of human rights (including the rights of women), I cannot accept an invitation from a country that sees me as the enemy" by Yann LeCun, the head of AI at Facebook, in response to an invitation to speak in Saudi Arabia*

*"You can love your country without having to love your government" from a libertarian tweet*