The Church of Sunk Costs

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1. WHAT IS A CHURCH OF SUNK COSTS?

In economics, a sunk cost is a cost that has been already incurred and, thus, is sunk in the sense that it cannot be recovered or eliminated even if the purpose for which it was committed is gone. As such, sunk costs should have no role in our future decisions. Setting this economic wisdom aside, however, human beings often carry sunk costs into the opportunity cost considerations of future decisions. For example, we often decide to stay put in a particular situation despite how miserable it might make us feel, and we do this simply on the basis of the time, effort, or emotion we have already invested in it. Or, we view future decisions by the filter of specific psychological states—sadness or anger—that are the result of our unwillingness to abandon thoughts about what could have been or should have been the case in a past experience had it not turned out the way that it did.

Such attachments to sunk costs are psychologically problematic because they can drive us into rabbit holes of our own making, bringing about self-reinforcing rounds of disappointment, regret and, sometimes, even depression. Some psychologists suggest that our musings about what is not the case—more precisely, what should have been or could have been the case—may be inevitable given our cognitive ability to multitask, that is, to think about many things beyond the present task before us. Our minds might wander when we are driving, attending a meeting, or even while talking with someone. And a most seductive direction for our multitasking minds seems to be the boundless realm of nostalgia. This multitasking feature of our thought is indeed an extraordinary cognitive achievement, but if the content of our thoughts is consistently focused on sunk costs, then we are set to carve only a path of unhappiness.

For all the twenty-something years that I have known Barry Smith, I have observed him to be a master in the application of the principle of sunk costs and, largely as a result, to enjoy a fulfilling and meaningful life. If a jealous colleague betrayed him, Barry moved past this unpleasantness in full acceptance of sunk cost wisdom. Rumour has it that he has been observed to return ill will with kindness and generosity. If an uninformed audience did not fully grasp the depth of his argument, he did not linger in the miasma from the lesser in the group, but instead took the objections as fuel for finding new ways of demonstrating (with infectious excitement) the idea that he wanted to convey. If someone very close hurt him, I have never heard him say a bad thing about it. Since he finds wallowing in regret or resentment unnecessary and counterproductive, we have never discussed any persons or situations that he has discharged as sunk costs. But his gentle evangelization for the sunk cost principle when my life was at a crossroads on more than one occasion, combined with his exemplary application of the principle of sunk costs in his own life, have inspired my own musings on the subject over the years, mostly for my own personal considerations. The occasion of this Festschrift has led me to examine the phenomenology of sunk costs in a more formal way.

What I discovered in writing this essay is that there is more to the practical application of the principle of sunk costs than meets the eye. The successful application of the sunk cost principle as a moral guide seems to require a broader frame-
work of practical wisdom. And such a framework could not be imposed by design because the boundaries of a design are demarcated by the particular beliefs of the designers. This would present limitations not only to the kind of practical wisdom that could be attributable to the framework but also to the universal application of the principle of sunk costs. The framework of practical wisdom, then, has to be one that is discovered as a social order and, over time, perfected and shared in community. This latter attribute of sharing is not only central to community, it is also the feature that would make possible the dissemination of practical wisdom as an evolutionary social order. It is in this way that I came to think of the notion of a church in relation to sunk costs.

Although the word ‘church’ is most commonly employed as a noun to refer to a building for Catholic or Christian worship, such as the Church of the Holy Sepulchre in Jerusalem, the Biblical meaning for this noun is broader; it refers to an assembly of people brought together for a common purpose. In addition, the archaic verb ‘to church’ signifies a rite of purification, which is also fitting to our context. Putting both these meanings together in relation to Barry, we can understand the Church of Sunk Costs as an assembly of all those of us who have learned and benefitted from Barry’s example and advice and who, aware of our human limitations and propensity for error, are in pursuit of redemption and a good life through a purification from past experiences. Sunk cost wisdom indeed involves a purification from past experiences, and this purification is achieved by the application of reason. “Salvation,” Barry observes, “thereby becomes at least in part a human enterprise, in which man is called upon to measure and exercise his reason.”

Before proceeding with a description for each of the above, it is important that I go back to the beginning, when I first met Barry, in order to set the proper stage for these descriptions.

2. ENCOUNTERING BARRY

I first met Barry Smith in Liechtenstein and, at that time, I was at a crossroads in my education. I was exploring the possibility of studying philosophy under his direction at the Internationale Akademie für Philosophie. At the time, I was in a graduate program in economics and involved in the research of economic value when, fortuitously, I had come across articles written by Barry. As a non-philosopher at the time, I immediately liked the clarity in his exposition. I also recognized in some of his writings the thing that I had been looking for but could not quite put my finger on. My mind was captured by assertions such as:

Austrian economics acknowledges in its fundamental axioms the methodological and ontological centrality of the economic agent.5

[About Menger he writes that…] Anyone, he argues, who has familiarity with economic phenomena (be they actions, choices, money, prices, contracts or debts) will acknowledge, independently of empirical testing, the truth of certain necessary propositions relating to these phenomena, and it is these propositions which must form the axioms of the science of economics. Economics becomes, therefore, an entirely aprioristic discipline.6

Necessary laws concerning economic kinds are, for the Aristotelian, no more problematic than necessary laws concerning natural kinds in other spheres.7

Yet however commonplace Menger’s conception of the objects and laws of economics may appear on this aprioristic, Aristotelian interpretation, it nevertheless stands in radical conflict with one methodological principle which has come to prevail as orthodoxy amongst philosophers and methodologists of science,
a principle which may be formulated as follows: scientific propositions are either contingent or necessary.²

The literature in economics is quite fascinating, especially the classical contributions from the members of the Chicago School, as well as from specialists in public choice theory, evolutionary economics, and others. But with regard to the philosophical foundations of economics, the literature is less satisfactory. So when I started reading Barry’s papers, it felt like watching the parting of the clouds in the sky to make room for the sun to shine through. He writes, for example,

> The ontological grammar of economic reality that is sketched by Menger can be seen in this light as providing a pre-empirical qualitative framework in whose terms specific empirical hypotheses can be formulated and specific mathematical models be given concrete interpretation. Such a foundation cannot itself be derived, on pain of circularity, either from empirical investigations of the more usual sort or from mathematical analyses. It must rather be derived at least in part—or so the apriorist argues—from that familiarity with particular economic phenomena which we are all of us able to acquire as economic agents.³

The Austrian economists in today’s Vienna have long forgotten Menger, the modern-day Austrian economists were not addressing the value theoretical matters that interested me, and the mainstream of economics had not even heard of the Austrian economists at the turn of the twentieth century other than in a history of economic thought course. But here was a philosopher reminding us with his attention to a somewhat forgotten period that these oversights should not keep us from recognizing their contemporary significance. This was a revelation for me.

3. FAITH

The decision that I was confronting at the time I first meet Barry would not only have involved a switch in disciplines from economics to philosophy, it would have also included a move to another continent and an unfamiliar environment. For these reasons, I wanted to meet him. As a graduate student, I knew that not only was my future intellectual formation at stake, but that my emotional wellbeing, too, would be dependent on the kind of person that he turned out to be. Selfish dissertation directors too preoccupied with their own personal or professional pursuits can delay one’s progress. This is a trap that I wanted to avoid. I also wanted to avoid a domineering dissertation director who micromanaged every aspect of my research, or expected me to place his or her research as central to my investigations. In light of these concerns, meeting Barry was a pleasant surprise because he was warmer, kinder, and more generous that I had imagined him. I am quite certain that I knew when I first met him what my decision would be. And I should add that studying under Barry’s direction was one of the best decisions that I have made in my life. But I am getting ahead of the story, for I need to get to the role of faith first.

My disenchantment with economics was not with it as a field of study for, as a graduate student, economics was still the most exciting discipline I had found until then. Rather, I was disenchanted with the prospect of becoming a professional “mathematoholic”. Nonetheless, it was still unnerving to consider the possibility of leaving economics behind and starting from scratch in philosophy. I had already made an investment of time, effort, and emotional commitment to economics. For me, philosophy was a new and untested territory in which I had no formal training. Moreover, I already had a good idea that (and my experience studying philosophy has indeed confirmed this): philosophy is hard. Fascinating, enthralling, and compelling (to me) but, nonetheless, hard. What if I failed? What if I did not like it and found myself stuck with a bad decision? These were indeed all the wrong considerations to have with regard to a future investment of one’s time, effort, and emotions because sunk costs do not—and should not—have a role in the opportunity cost considerations of future choices. Whatever was the cost of my education in a discipline that I was not to pursue further, this cost was an unrecoverable and unavoidable cost and, thus, a sunk cost.

Barry has inspired many to change career directions: engineers and mathematicians have become philosophers, philosophers have become knowledge engineers and biomedical ontologists, and so on. This was also the case for me. In making my choice to pursue philosophy, Barry’s advice helped me to recognize the wisdom of the principle of sunk costs as a principle of practical wisdom, and to take a leap of faith in the direction of philosophy. As a student of economics, I was aware of the principle of sunk costs already. However, I had not really thought of applying this principle outside of business decisions concerning production and into the personal realm of decisions regarding the future deployment of my own human capital. This is how I first encountered the first bit of Barry’s practical wisdom built on a ground of philosophical foundations of economic theory. Shortly thereafter,
I was a graduate student of Barry’s, not in Liechtenstein as I had expected, but at the University at Buffalo, where he had just accepted a full professorship. In retrospect, I am glad to report that my experience as a graduate student in Buffalo was not only better than I expected, it ranks among the happiest and most fulfilling times in my life.

I did not discover until many years later, however, that the application of the principle of sunk costs is not just a rational and mechanical response to future production decisions in business or, as I have presented here, in the personal realm of decisions. A fortiori, the application of the principle of sunk costs demands faith. This requires some explanation.

I was at another crossroads in my life around four years after my graduation from Buffalo. I had been offered a position of Research Director at a large institute in South America but, unbeknownst to me, the president of this organization had made this decision unilaterally and had not informed his Board of this decision. This was not the regular hiring procedure at the institute and, understandably, the older directors at this institute felt slighted and made this feeling very clear to me. One of these directors asked me to sign a contract that was not even close to the offer that the president of the institute had made verbally and which I took at his word. I remember him handwriting each element of the offer as we talked in his mansion, but this agreement was not in the contract presented to me. So I specified to the director the offer that the president had made, and this director informed me that such an offer was impossible. When I asked to discuss the matter directly with the president, I was told that he does not involve himself in such details but that he would be informed of my request. The next day I received an email indicating that the offer had been rescinded, and I never again heard from the president.

This eleventh hour contract breach was devastating to me financially because I had already committed thousands of dollars in the arrangements for my move, the transport of my belongings, and the three months’ rent for my new place. The latter alone was already $6,000 in the rather expensive neighborhood of El Olivar, near the institute. But I was unable to recover any of these costs. If there ever was a call to the Church of Sunk Costs, this was indeed the most perfect case for its application. Barry knew of this situation because he had been a supporter of my being hired for this position. In this situation, too, Barry reminded me of the principle of sunk costs and asked me to refrain from thinking about my financial loss. But, for me, not even sunk cost wisdom could turn my acceptance of this situation into anything other than a bitter pill to swallow. In an effort to lift my spirits, Barry told me to have faith and promised to send work my way. I was not quite sure what he meant by faith at the time but, in retrospect, I think that he was telling me to have faith in what the future could bring, that is, to be forward looking. I must admit that not until I wrote this essay did I come to the full realization of the role of faith in the application of the principle of sunk costs.

I do not have a problem embracing certain things on faith and I think that, setting religion aside, we all have faith in someone or something at some point in our lives if we are courageous enough to take a risk. According to one understanding, faith is to accept with certainty that which is hoped for and to hold the conviction for what is not yet seen. The risk is to be wrong in what we accept on faith. Consequently, faith cannot be divorced from reason and prudential judgment in order for faith to be distinguishable from a roll-of-the-dice decision. When I switched disciplines, I had faith that I had made the right choice. I couldn’t know for sure, but there was sufficient rational support for my making this choice, and so I followed this path. So long as what we accept on faith is supported by reason and prudential judgment, then the faith that we place on, say for example, a friend or a spouse is no different from the faith upon which we accept rationally defensible scientific theories for which there is no definitive proof. We could be wrong in all of these cases, of course, and when this happens, the only productive way to move forward is to change the bearer of our faith from whatever it had been—e.g., a perceived honorable offer of employment, in my case—to the principle of sunk costs. The challenge is that transferring one’s faith from one bearer to another is much more difficult that one can imagine. In the most devastating cases, I dare say, this transfer seems almost impossible. But there is one other tenet in the structure of the Church of Sunk Costs that can facilitate such a transfer, and this is the principle of mindfulness.

4. MINDFULNESS

Mindfulness is the process of bringing one’s attention to the present moment. This involves shutting off the mind’s wanderings. And there is a particular mechanism for deploying mindfulness that is represented by three building blocks of consciousness regulation. i

i. Intention—this refers not only to the directedness of the present experience but, more specifically, to a directedness that targets the most enlightening aspect of the experience. The idea of finding the aspect of an experience...
that is the most conducive to one’s understanding or growth is perhaps a difficult concept to grasp within the context of intentionality in Western philosophy. In the Buddhist tradition, however, the intentional directedness to the present experience goes hand-in-hand with a vision for personal growth. As such, the targeted aspect of the experience is that which will best enhance the path to greater enlightenment. The search for and subsequent discovery of such an aspect of the experience is an evolving process given the dynamic nature of our experiencing present experiences.

ii. Attention—this is the focus on the present experience as it is presented and, above all, avoiding any interpretation of the present experience that would switch the focus to other feeling-states from past experiences (e.g., anger, fear, anxiety, excitement, and so on). As such, this focus is also critical in setting forth a psychological healing process. Above all, this focus is essential to the success of i (above) and iii (below). More specifically to our examination of sunk costs, this focus allows us to develop the skill of switching the focus of attention, and thus inhibiting negative emotions from past experiences whose sequelae might be in our present experience. Accordingly, this skill makes possible the transfer of faith from a situation that did not work out as hoped for to the wisdom of sunk costs that allows us to be forward looking.

iii. Attitude—this refers to how we attend the present experience. We can bring a positive attitude to our mindfulness—e.g., a compassionate attitude, or an attitude of peacefulness and forgiveness—but we can also attend to our present experience by the filter of sadness or depression at one extreme to anger and desire for vengeance at the other extreme. If we attend to our experience with a negative attitude about our present lot, then we attend to the experience of feeling negatively about our lives. By contrast, when we attend to our present experience with compassion (including compassion for oneself), then one attends to the experience of feeling restored. This self-regulation of attitude is learnable, and it is reinforced by having a goal that offers a more rewarding state of mind than that which is achieved through a negative attitude. I shall address this in more detail in the next section.

Cognitive psychologists have examined the attentional abilities that can be developed from mindfulness, including the ability to shift focus from mental states at will. This is a powerful ability. It is not surprising, then, that many philosophical traditions have reminded us to practice mindfulness. The state of mindfulness in Shinkataza, for example, is a dedicated awareness of what is happening to us in the moment, and also the immediate effects of such happenings in us. Some claim that this ancient Buddhist practice of mindfulness has influenced some religious traditions and popular culture—from those practiced by Catholic monks, rabbis, and Episcopal priests, all the way to modern-day yoga and martial arts instructors.

Barry is as much an urban-Buddhist as he is a socialist, so no one could ever attribute to him either a formal Eastern philosophical influence, nor its modern-day popularized versions. Moreover, I have never heard Barry speak of mindfulness. However, Barry is a man who not only accomplishes more in the same amount of time as anyone else who is similarly driven, he is also productive on many fronts. On a light day for Barry, he may be writing a paper, while reading on another topic, teaching a course, and responding to emails almost instantaneously. The only way that he can do this is by focusing on one task at the time, in full attention and, from what I have witnessed, in a joyful way. We could call this discipline, sure, but mindfulness brings to relief a finer-grained description of Barry’s productive efficiency. We might not be able to achieve the masterful level of mindfulness that Barry can muster, but he has shown us the way by example.

5. THE STRIVING FOR GOALS THAT BRING ABOUT FULFILLMENT AND FLOURISHING

Let us tie together what we have covered so far. The success of our application of the principle of sunk costs is dependent on our mindfulness. In other words, placing one’s faith on the wisdom of sunk costs and applying mindfulness to reinforce this end can help us to shift our minds away from past losses and toward the present. Together, these two tenets constitute a good assembly of problem-solving skills applicable to discrete cases. But without the motivation to move forward, that is, something for which to strive, we might be tempted to look back at sunk costs again and to consider ways in which we could recover what we lost. So we must seek for a goal, but not just any goal. We need to seek for a goal that brings about fulfillment and flourishing because such a goal will keep us looking forward even if we have further setbacks and losses. “What makes a life worth living,” says Barry, “has something to do with what you do, here on Earth…”
[It] depends not on your, or other people's, beliefs or feelings, but on what you do, on what you achieve, and thus on the degree to which through your efforts you succeed in imposing a pattern on your life which has some implications also for the world around you.\(^{18}\)

The goals that we strive for, then, should give our lives direction as well as a purpose that is not aimed merely at fulfilling our desires and abilities. In other words, the purpose should be bigger than ourselves.

6. BARRY’S EFFECT ON OTHERS

Barry has not only followed the principle of sunk costs, he has also lived a life focused on the tasks presented before him, one at the time, and he has directed his life toward a purpose that transcends his own self-interests. I view this purpose as threefold: (1) to examine ideas for their own sake, (2) to serve others who seek his help, and (3) to live honorably. I would like to address each of these briefly. First, let us consider the task of examining ideas for their own sake. For those who reach prominence in their own time, it is not always easy to demarcate the line that separates their self-interested motives from their love of ideas. Indeed, it is the duty of a scholar to present his or her contributions to the circles in which they will be most productive. This demands the effort to make one's contributions known by means of teaching, presenting, and publishing. Barry's speaking skills are impressive, combining penetrating analysis with humor and, many times, silliness in order to drive a point home. His success in teaching and presenting is thus well-known in the philosophical circles and institutions in which he has chosen to participate actively. At only 65, Barry's list of publications alone (see the Appendix to this volume) is the length of an average-size dissertation. It is most certainly longer than mine, and let me add parenthetically that I know that Barry would have preferred that my dissertation had been even shorter given his penchant for brevity.\(^{19}\)

The sheer volume of his contributions, however, is most certainly not the measure of his pursuit of ideas for their own sake. The mark that Barry has made lies in the effect that he has had in philosophy. Barry, along with Peter Simons and Kevin Mulligan, brought new attention to the ontological aspect of the correspondence theory of truth. As such, this illustrious trio made an important mark on the examination of truth, a central subject in philosophy. Barry has also brought attention to Austrian philosophy and the philosophy of Austrian economics, which has led to new research in philosophy and economics based on the contributions of turn-of-the-twentieth century Austrian thought.\(^{20}\)

Barry has also championed thinkers who have been either unknown or quite obscured in contemporary philosophical literature, such as for example Anton Marty, Christian von Ehrenfels, Johannes Daubert, Adolf Reinach, and Roman Ingarden. This effort has had a profound impact on many if we consider the vast number of citations that his work commands. Moreover, Barry has built the ontology specialty at the department of philosophy at the University at Buffalo, for which it is best known today. He did this through his courses and research interests, as well as by bringing former students and colleagues from Germany and elsewhere to add to the new ontology specialty of the department. There are many other examples of Barry's contributions to philosophy that are mentioned in other articles of this Festschrift, but the chief point that I would like to make is that, although he has been widely recognized for his professional contributions and has received prestigious awards, the fame that Barry has sought has been primarily for the ideas that he has pursued rather than for fame itself.

This brings me to the second aspect of the larger purpose that Barry has pursued: the service to others. All those who know Barry, even superficially, know that he is generous with his time despite his ambitious work schedule. This generosity ranges from replying to emails quickly to more substantial help such as reading a paper, or making a significant impact in someone's career with support for a grant, post-doc, internship, or teaching position. He has helped many—students, former students, colleagues, friends and strangers alike, most likely even more than the great many who already admit to this—and without seeking gratitude or quid pro quo conditions. It might be the case that some who have been on the receiving end of his generosity do not recognize it for what it is. But I do not see such situations burdening Barry in the least because he has a broader purpose that motivates him to serve others. Barry helps simply because he wants to facilitate the pursuit of other people's plans if it is in his hands to do so. It would seem also that this purpose also supports the first aspect of this broader purpose mentioned above—the pursuit of ideas for their own sake—because Barry is also a profoundly modest man. He would not view his work as being the only important contribution to philosophy. This might come as a surprise to those who have witnessed, in a class session or at a conference, Barry's demonstrations that pretend to indicate self-interest—because Barry is also a profoundly modest man. He would not view his work as being the only important contribution to philosophy.
(meaning, property rights), the rule of law, efficient language, and good philosophy, with some concessions to the contributions by Brentanian-influenced Austrian and Polish philosophers, and a few others (a few German and French, plus one Nicaraguan). Or, his claims lauding male superiority to such an extreme measure as to make clear to any keen observer that he does not hold such an absurd view. It is precisely his modesty that allows him to set aside his concern for how he would be viewed as a person by anyone who is not previously aware of his tactics to shock an audience out of their uncritical attachment to a cause by questioning their own point of view and, thereby, to give them the chance to consider an alternative view. Only a modest man recognizes that the pursuit of ideas for their own sake is not achievable by any one person alone but, rather, only as a purpose carried by many, and the more who can be enlisted, the better.

The third aspect of Barry’s broader purpose in life is, as I see it, his commitment to living honorably. What does this mean exactly? We can think of living honorably as acting consistently with honesty, generosity, kindness, and loyalty and observing morally good behavior such as standing by one’s word, promises, and duties. All of these attributions are true for Barry. But the point that I want to make here is that living honorably also means living well. Despite his legendary capacity for hard work, I have never seen Barry trade an opportunity for enjoyment of fine food and wine, good jazz, a social gathering with friends, or true love, for work. Barry has indeed found true love and good friendships because he wants to live a fulfilling life, one that involves his dedication to his calling but also a life that is filled with other beautiful things that life has to offer.

We often mistake differences in the lifestyles of others as flaws that need correcting. Europeans and Latin Americans, in my casual observation, embrace long vacations as not only necessary for survival but as activities that must never be mixed with any kind of work. People who hold this view may see Barry as a workaholic. In the United States, however, many view vacations as interruptions to their work that should be either minimized or mixed with some work in order to justify the need to take one. People who hold this view may see Barry as hard working. As a Basque-Peruvian Catholic, raised in a Methodist-American school in Peru, who later moved to the United States to attend college, subsequently to become an American citizen, and then settling in Europe, I straddle both views. Accordingly, I can understand how someone holding any of these views could feel horrified at the extreme opposite view. What we must recognize, however, is that there is no single script for living a happy life. We must discover what is the right balance of work and leisure for each one of us. I have no doubt that Barry has sought this Aristotelian Golden Mean for leading a happy life, and I am even more certain that he has found it.

And this is how Barry has built what I call the Church of Sunk Costs and has, thereby, carved a meaningful life that amounts to much more than professional accolades. He has shown by example that the Church of Sunk Costs is a sound secular guide for practical wisdom. Most notably, and despite his prodigious appetite for work, Barry seems to have a good life. As far as the rest of us are concerned, the effects of Barry’s Church of Sunk Costs can be as extraordinary as we want them to be. Not least of all, we can see sunk costs for what they really are: distractions from living a good life. Hence, a setback that we may encounter just means that we can set our eyes on the opportunities that we have yet to take, the people we have yet to meet, and the ideas we have yet to entertain. For opening my eyes to all this, I thank you Barry!

**NOTES**

1 Baumol and Willig 1981, p. 406
2 Killingsworth and Gilbert 2010
3 Smith 2002, p. 7
4 Smith 2002, p. 10
5 Smith 1986, p. 2
6 Smith 1986, p. 2
7 Smith 1986, p. 3
8 Smith 1986, p. 3
9 Smith 1990, p. 279
10 Hebrews 11:1
11 Shapiro, Carlson, Astin, and Freedman 2006, p. 375
12 Shapiro, et al. 2006, p. 376
13 Shapiro, et al. 2006, p. 377
14 Posner, 1980
15 Scharf 2014, p. 941
16 Scharf 2014, p. 942
17 Smith 2002, p. 10
18 Smith 2002, p. 13, brackets added
19 See Erion 2017, pp. 6-8
20 See Austrian Thought: Philosophy and Economics, Zúñiga y Postigo and Williford (forthcoming)
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