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> *A problem is something which I meet, which I find complete before me, but which I can therefore lay siege to and reduce. But a mystery is something in which I myself am involved, and it can therefore only be thought of as a sphere where the distinction between what is in me and what is before me loses its meaning and its initial validity.*[i]
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> *- Gabriel Marcel (1948)*

> *But Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated… The essential fact is that "risk" means in some cases a quantity susceptible of measurement... It will appear that a measurable uncertainty, or "risk" proper, as we shall use the term, is so far different from an unmeasurable one that it is not in effect an uncertainty at all.*[ii]
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> *- Frank Knight (1921)*

Although the gap between philosophers and economists today sometimes seems vast, we can see many concepts that bridge between the disciplines: in fact, it seems the concepts cross over more easily than their practitioners. In this paper we will examine Gabriel Marcel's distinction between problem and mystery, and will compare it with Frank Knight's distinction between financial risk and uncertainty. First, we will define both sets of principles more fully; then, we will discuss the application of each to the recent financial crisis; and finally, we will attempt to draw some comparisons and conclusions by which Marcel's and Knight's notions might each inform the other.

Let us begin with Marcel, who makes a helpful distinction between a problem, something to be solved, and a mystery, something to be recognized. For Marcel, a problem is something outside the self, analyzable, conquerable. A mystery, however, is something connected with the self, something that "transcends every conceivable technique" of analysis. Importantly, he also notes the temptation we have to reduce a mystery to a problem, cautioning: "Just because it is the essence of mystery to be recognized or capable of recognition, it may also be ignored and actively denied. It then becomes reduced to something I have heard talked about, but which I refuse as only being for other people; and that in virtue of an illusion which these "others" are deceived by, but which I myself claim to have detected."[iii] He notes the nefarious underpinnings of such confusion, commenting that it is "a fundamentally vicious proceeding…the problem of evil… supplies us with a particularly instructive example of this degradation."[iv]

There are thus three key elements to Marcel's definition: first, the distinction itself; second, the recognition of the discomfort we have with the un-conquerable, and our resulting tendency to apply analysis even where it has no place; and third, the potentially disastrous consequences of confusing a mystery with a problem. We see these same elements in Knight's description of risk versus uncertainty.

Knight's *risk* is akin to Marcel's *problem*: financial or business risk involves an element of the unknown, because the outcome is not clear. However, the range of possibilities *is* known, and model-able, and thus manageable. *Uncertainty*, the twin to Marcel's *mystery*, presents a much tougher situation: uncertainty is not measureable, as both the outcome *and* the range of possible outcomes are unknown. Knight is clear about the importance he assigns to this distinction, commenting that it is uncertainty that "forms the basis of a valid theory of profit and accounts for the divergence between actual and theoretical competition".[v] That is, uncertainty explains the difference between models and real life results. Surely, then, this is a concept that any investor or businessperson should want to understand. And yet, due to our discomfort with the nebulous, the unquantifiable, we insist on applying risk-assessment models to what are actually *uncertain* situations.[vi]

The all-too-vivid example of our recent financial crisis encompasses all four of these concepts in a powerful way. The underpinnings of the turmoil were relatively straightforward: we simply had the wrong assumptions in models assessing risk for the housing market, and its related mortgage securities. Contrary to popular accounts, the housing crisis was not a "black swan event"[vii]: put simply, the models virtually all assumed ever-increasing housing prices. This was dumb, but the underlying question was analyzable: the exact same models, using different house price assumptions, would have worked just as intended, and would have led to far less aggressive lending decisions. This was simply a case of inept risk assessment.

What followed, however, is what moved us into the realm of uncertainty. Because of the bad *risk*-related decisions, we were suddenly plunged into the unknowable, the un-analyzable, the terrifying. What happens when large institutions like Lehman Brothers and AIG collapse? What happens when millions of homeowners realize that their biggest asset is actually a liability? What happens when 'automatic' lending like the commercial paper market seizes up and halts? When these *risks* were all layered on top of one another, we ended up with *uncertainty*, a much more precarious and unmanageable situation. This causal link between risk and uncertainty is a curious and under-examined one.

In order to tie the systemic discussion above to the more human realm of Marcel's *problem* and *mystery*, it is helpful to examine the actual humans involved in this same situation. Here we see some powerful parallels between the individual and institutional realms, between the philosopher and the economist.

Just like the housing models, the initial issues confronting investment professionals during the recent crisis were firmly in the "problem" category. There were specific companies, specific stocks and bonds, where business results were far different than expected, and the securities' prices moved accordingly. These were serious issues, to be sure, but addressable ones. For the individuals, too, these problems were manageable: a bad day at work, having to face specific mistakes we've made…well, it happens all the time. And so long as one feels some sense of control, it is not too tough to return the next day, feeling fairly confident in one's abilities and, by extension, in one's place in the world.

As the crisis proceeded, however, the risks turned into uncertainties and the problems turned into mysteries. Individuals went from feeling in control of the situation to feeling completely powerless. In the words of one participant, "there was just nothing I could do…. Nothing worked, I had nothing."[viii] Accompanying the serious professional concerns was a set of even more challenging personal concerns: "I thought I knew what I was doing, I thought I was good at this… if I can't do this, what can I do? If I'm not this (an investor), what am I?"[ix] This shift from problem to mystery is a daunting, even terrifying one, so much so that some refused to recognize the switch. One participant sums up his professional experience in a way that alludes to the underlying personal crisis: "I just kept analyzing, kept updating my model… it was obviously the wrong thing to do, I just couldn't believe it wasn't relevant anymore."[x] It is clear in this discussion that it is not the model per se that is a challenge, it is the fact that the person's whole system for dealing with crisis was proven inadequate, implying that the person himself was inadequate too.

The intermingled professional and personal accounts above show two things: first, that the notions of Marcel and Knight, at least among financial professionals, are tightly intertwined. And second, that the parallel concepts of uncertainty and mystery are so daunting that we go to great extremes to avoid, minimize, and deny them. So, what can we learn from this examination?

First, we can conclude that there is indeed value to comparing concepts from different disciplines, especially when those concepts connect the personal with the institutional. We can see from our discussion of the financial crisis that it is impossible to separate the two, and in fact that doing so can be misleading. It is deeply concerning, for example, to see so much popular commentary focused on "the system" and "the banks", when in fact these organizations are nothing but the cumulative actions of the people within them. In essence, much of the analysis of the financial crisis has been focused on one small quadrant, viewing the entire situation with a "risk" lens. However, employing all four categories (risk, uncertainty, problem, and mystery) helps to tease out some of the complexities and provides a more complete and thus more helpful view.

Second, we can confirm that the motivation for avoiding mystery and uncertainty is powerful. There are even some strong physiological reasons that contribute to this avoidance: when we are under stress, our centers of reason and reflection in the brain are the first to be compromised, and our centers of physical preservation ("fight or flight") are maintained.[xi] This certainly does not help us to thoughtfully distinguish between tough problems and un-analyzable mysteries. In economic terms, we have the added complication of significant monetary incentives for assessing and taking risk, compared with active disincentives (at least in the short term) for identifying true uncertainty. It is some comfort to note that the mere recognition of mysterious and uncertain situations is rare, so that detection alone is a significant advantage.

Third, we can identify some important new questions through our comparison: for example, we saw risk and problems related to the financial crisis, which, when compounded, resulted in uncertainty and mystery. Is this a common pathway, or unique to this particular example? Can we somehow backtrack along this path, to get back to a more manageable sub-set of issues over time? It seems the answer to this second query is a tentative yes, at least once the most immediate crisis, the most intense period of uncertainty and mystery, has passed. This raises a third question, though, regarding the fluidity of these categories. Both Marcel and Knight present them as fairly static concepts, and yet real-world examples seem to show a more active migration between the risk/problem and the uncertain/mystery poles.

In combining the frameworks of Marcel and Knight, we have evidence that they both complement and reinforce one another. This perhaps indicates a larger set of insights beyond the scope of this discussion, insights that might be gained by more consistently comparing institutional and individual models of thought and behavior. Importantly, this analysis could ultimately bring both social and personal benefits, for, as Oscar Wilde noted,

> *The final mystery is oneself. When one has weighed the sun in the balance, and measured the steps of the moon, and mapped out the seven heavens star by star, there still remains oneself. Who can calculate the orbit of his own soul?*[xii]

The use of these concepts may not "calculate the orbits of our souls", but they can at least help us to define the times when those souls are most needed, the times of uncertainty and mystery.

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ENDNOTES:

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[i] Marcel, Gabriel. Gifford Lectures, 1948-1950. The Mystery of Being: Reflection & Mystery. See: http://www.giffordlectures.org/Author.asp?AuthorID=119 Chapter X: Presence as a Mystery.

[ii] Knight, Frank H. Risk, Uncertainty, and Profit. Boston: Houghton and Mifflin, 1921. See: http://www.econlib.org/library/Knight/knRUP.html. Chapter 1, I.I.26.

[iii] Marcel, chapter X: Presence as a Mystery.

[iv] Ibid.

[v] Knight, chapter 1, I.I.26.

[vi] Mauboussin, Michael J. "Interdisciplinary Perspectives on Risk" Mauboussin on Strategy, August 15, 2006.

[vii] Taleb, Nassim Nicholas. The Black Swan: The Impact of the Highly Improbable. New York: Random House, 2007.

[viii] Investor A (identity withheld by request). Personal interview. October 2009.

[ix] Investor C (identity withheld by request). Personal interview. September 2008.

[x] Investor B (identity withheld by request). Personal interview. November 2009.

[xi] Merryman, Ashley. Presentation at PopTech Conference. October 23, 2009.

[xii] Wilde, Oscar. The Complete Works of Oscar Wilde. New York: Oxford University Press, 2005, p. 124.