God and the Problem of Order: The Role of Perfect Information and Absolute Power in Economics, Religion and Law

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Abstract

The "problem of order" is resolved idyllically in Arrow-Debreu general-equilibrium models through the assumption of perfect information, where each actor is god-like, omniscient, and where this omniscience results in the veracity of the first theorem of welfare economics, where an equilibrium is Pareto efficient, where no actor, given her original endowments of alienable and inalienable capital, can improve her position. Analogously, in many religions, God is understood to be omniscient; order emerges through God's ability to sanction malfeasance costlessly. Ideally, a comparable order would likewise be the consequence of the assumption in both economics and religion of an omnipotent principal. In both economics and religion, equilibria serve as idealized, transcendent, critical standards. In the real, immanent, world, where information is imperfect and no power is absolute, the institutionalization of law is necessary to maintain order. Religion has bequeathed to the legal order moral principles that may legitimate the law and make it binding, while economics, as a theory of incentives in the immanent world, models the imposition of legal sanctions, which penalize actors who approach and violate the law strategically. The law is an institutional order, where both constitutive norms and legal rules are legitimated through "religious" values and supported by "economic," situational sanctions.

Keywords: mixed methods, qualitative method, quantitative method, epistemology, reflexivity

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Dios y el Problema del Orden: El Rol de la Información Perfecta y el Poder Absoluto en Economía, Religión y Derecho

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Resumen

El "problema del orden" se resuelve idílicamente en un modelo general de equilibrio Arrow-Debreu partiendo de la asunción de información perfecta, donde cada actor es igual que Dios, omnisciente, y donde esta omnimiscencia es resultado de la veracidad del primer teorema de la economía del bienestar, donde tiene lugar un equilibrio de eficiencia de Pareto, donde ningún actor, partiendo de una determinada dotación de capital alienable e inalienable, puede mejorar su posición. Análogamente, en muchas religiones, Dios se concibe como omnisciente; el orden emerge a través de la habilidad de Dios de sancionar las infracciones a ningún coste. Idealmente, un orden comparable sería así mismo consecuencia de asumir un actor principal omnipotente, tanto en religión como en economía. Tanto en religión como en economía, el equilibrio funciona como un estándar idealizado, transcendente y crítico. En el inmanente mundo real, donde la información es imperfecta y ningún poder es absoluto, la institucionalización de la Ley es necesaria para mantener el orden. La religión ha transferido al orden legal moral principios que pueden legitimar la ley y hacerla vinculante, mientras que la economía, en tanto que teoría de incentivos en el mundo inmanente, modela la imposición de sanciones legales, lo que penaliza actores que se relacionan con la ley y la violan estratégicamente. La ley es un orden institucional, donde tanto las normas constitutivas como las normas legales se legitiman a través de valores "religiosos" y se apoyan en sanciones "económicas" situacionales.

Palabras clave: métodos mixtos, método cualitativo, método cuantitativo, epistemología, reflexividad

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This paper is an exploration of the "Problem of Order" and its resolution in three separate domains, economics, religion and the law[1]. I argue that, contrary to Talcott Parsons, the "Problem of Order" has been resolved successfully within neoclassical economic theory. This resolution is manifest in Arrow-Debreu general equilibrium models, where it is effected through the assumption of perfect information. Here each actor is god-like, omniscient, and this omniscience results in the veracity of the first theorem of welfare economics, that in equilibrium the characterized economy is a Pareto optimum, where each actor is as well off as possible (given the acceptance of her original alienable and inalienable capital) and no actor has a rational motivation to alter her position[2]. This result is no more than the mathematical consequence of a set of assumptions and has little relationship to the social world in which we live.

Analogously, in many religions, God is understood to be omniscient, all knowing. Order emerges through God's ability to punish any and all malfeasance costlessly; of course, neither the punishment nor the order may be manifest in this world.

In addition, I will make a related, isomorphic argument drawn from economics; if in a society (or a firm) there is a principal with *absolute* power, social order is maintained, as economic activity is optimized and no one has any motivation to alter her position. This is analogous to the religious characterization of God as omnipotent, which has consequences matching those derivative from the assumption of God's omniscience. In religion, the two arguments, about the omniscience and omnipotence of God, often run in tandem[3]; in economics, they are often stated as stark alternatives, a free market versus (an incomplete) economic absolutism in a command economy. However, both contentions have the same argumentative status: both solve the problem of order; both result in equilibria that serve as critical standards, defining "ideal normative orders", and both are myths enabling believers to function, if not always effectively, in the world in which they actually live.

I conclude by showing that, in the real, immanent world, the institutionalization of law is necessary to maintain order. Here[4], where information is imperfect and no power is absolute, legitimate procedures (secondary rules) generate justified and legitimate legal norms (primary rules) that are supported by situational sanctions[5]. Such a system is uncertain in its consequences, but like the theory able to depict it successfully, realistic in its characterization of the world in which we live. It derives in equal parts from religion and economics, when each moves from the realm of the transcendent to the realm of the immanent (Luhmann, 2000/2013). In our real world, religion has bequeathed us the moral principles in terms of which our law is binding, while economics enables the law to handle those actors who act strategically in response to a binding order; it does this through the imposition of sanctions[6]. Thus, the law is an institutional order, where both constitutive norms (secondary rules, procedures) and legal rules (primary rules constituted through secondary rules) are legitimated through (moral) values and supported by situational sanctions.

Neoclassical Economics: Perfect and Imperfect Information

In neoclassical theory, actors are understood to maximize (arguments in their utility functions) against constraints. The norm of instrumental rationality, maximization, is constant across all actors, across all times and spaces; preferences are exogenous. Thus there are three mechanisms in the theory: the single, positively-stated normative orientation, usually instrumental rationality, the exogenous ends, and the constraints, the situation(al sanctions). When economics is viewed as a theory of incentives, it is only the constraints, situational sanctions, that can be manipulated. I discuss two types of models within this theory, perfect and imperfect-information models. The former, in the form of Arrow-Debreu general equilibrium models, specify a transcendent ideal with little applicability to our immanent world. In the latter, in situations of uncertainty (asymmetrical information, bounded rationality) typical of our immanent world, actors may act in error or ignorance, trying to act instrumentally-rationally and failing, or thinking that they are acting instrumentally-rationally when they are not doing so.

The first equilibrium condition in Arrow-Debreu general-equilibrium models is that all factors of production receive the value of their marginal product as a price. (Equilibrium in economics means that no actor has any incentive to alter her position). This means that factors of production, e.g., laborers, that have equal productivity, receive an equal price in equilibrium[7].

If maximizing employers are not using the cheapest methods of production, they have an incentive to change to increase profits or to mitigate losses. The condition of minimum cost of production per unit output leads to the law of marginal productivity. The least cost combination of factors of production occurs when the marginal products of the factors are proportional to their prices. This condition is another way of suggesting that, in a competitive market, all producers are constrained to produce efficiently, to select that process of production that is most efficient, that generates the lowest per unit costs.

It is easy to show that these equilibrium conditions presume perfect information (Arrow, 1963; Stiglitz, 1991). Here, I will illustrate that this is so in a very simple characterization of an employment relationship. In the situation of perfect-information, both the principal and the agent know the value of the worker's marginal product. The principal cannot pay the worker less (if she tries to do so, the worker will move to an employer who will pay a wage closer to the value of her marginal product and will stop moving only when she receives this value as a wage) and will not pay the worker more (which would result in a loss). Workers will move to the position where the value of their marginal product is maximized (and workers will stop moving only when the intrinsic values of their marginal products are equalized). There is no problem in motivating employees as the nature and the amount of their work is transparently/costlessly manifest to the employer; in consequence, in equilibrium, workers are always paid the value of their intrinsic marginal product. The movement between the capacity to labor and actual toil involves a "simple translation of one metric (hours) into another (work)" (Bowles & Gintis, 1985, p. 36).

In contrast, in an imperfect information model, where it is costly to determine the value of a worker's marginal product, workers may shirk. Here every actor is acting in an instrumentally-rational way, which means that, in a situation of imperfect information, she may act opportunistically, strategically, or, as Williamson puts it, with self-seeking guile (adverse selection and moral hazard) (Williamson, 1985). Such an imperfect-information model, in equilibrium, will not generally be at an optimum (This is a theme throughout Stiglitz's work; for some easily intelligible discussions, see (Stiglitz, 1987; Stiglitz, 1985; Stiglitz, 1991); worse, in such a model, it may be shown that firms are constrained to maximize profits, and that, unlike in perfect-information models (Koopmans, 1957), doing so is not equivalent to maximizing efficiency (Bowles, 1985; Bowles & Gintis, 1985; Gould, 1994). Thus, while, in equilibrium, perfect-information models meet the first theorem of welfare economics, constitute social order, and delimit a critical standard, none of this is the case for imperfect-information models. The immanent, where information is imperfect, is not congruent with the transcendent, where information is perfect. In our immanent world, malfeasance is possible and incentives matter.

Monotheism: God as Omniscient

The point, in a discussion of God as omniscient, is simply, as Atran has commented, “To keep the morally corrosive temptations to deceive or defect under control, *all concerned*—whether beggar *or* king—must truly believe that the gods are always watching” (Scott Atran, as quoted in (Herrnstein Smith, 2010, p. 83). While an omniscient God may not regulate action to maximize benefits in this (immanent) life, in the next, transcendent, life such a God is understood to judge humans justly, using as a standard whatever criteria God has enunciated for us.

Thus, in monotheistic religions, order is constituted through adherence to God’s expectations, which define for us, in our current realities, a critical standard, which will be realized, out of time, for all of us. The moral values that constitute this standard may regulate our immanent lives, but they are realized fully only in a world set apart from the world in which we live. In our immanent world, incentives matter for most of us much of the time and for all of us some of the time[8].

Neoclassical Economics: Absolute Power

In perfect-information neoclassical models, the principal knows costlessly the actions and their consequences for every agent for all time. In neoclassical models that assume absolute power, the agent must fulfill the principal’s orders transparently (or the loss due to a negative sanction will out-weigh any possible gain from attempting to buck absolute power).

We may show that in a Marxian model, where surplus value is generated, the extraction of labor (work) from labor-power (the capacity to work) requires an asymmetry of power between principals (employers) and agents (employees), but, paradoxically, this asymmetry *cannot* be absolute[9]. Absolute power is analytically equivalent to the situation where the extraction of the maximum work from the worker would be costless for the employer. In consequence, there would be an invariant relationship between the number of workers and the work they performed; labor would be transformed into a commodity like all other commodities and competition would eliminate any and all profits/surplus value (apart from those dependent on variations in inter-firm efficiency). This is, once again, a situation where all firms are constrained to produce efficiently, selecting from available production processes those that result in the least cost combination of factors of production and where the marginal products of the factors are proportional to their prices[10]. We may generalize this point to suggest that, if a political ruler had absolute power, a command economy would produce efficiently. The outcome would be isomorphic to the one generated with the same production technologies within a perfect-information model, and like that model, would resolve the problem of order and might serve as a critical standard[11]. Thus, even though, ideologically, the notions of perfect-information markets and absolute-power command economies are incompatible, as critical standards they generate equivalent outcomes, and they both, if only theoretically, resolve the problem of order (one in the manner of Locke and the other in the manner of Hobbes).

Monotheism: God as Omnipotent

Conceptualizations of the nature of God's omnipotence in monotheistic religions vary considerably, but all presume that God is capable of intervening in the world to make it as he wishes, that he chooses not to do so, and that this raises the problem of theodicy, of evil in the world. Evil, usually understood to be motivated by unregulated desire or some form of temptation (for example, by Satan), is a deviation from God's standard. Unlike treason, evil sometimes, at least in this world, prospers (even though God has the power to eliminate it)[12].

While the problem of theodicy is resolved differently in different creeds, its resolution in monotheism results through God's power to impose his judgment on humans, if not in this life, in an afterlife. Humans are judged in terms of whether they have met God's expectations of them, and these expectations are instituted as an ethical standard integral in constituting a normative order, a critical standard that delimits an ideal. The problem of evil manifests that this standard is not realized in our immanent world.

The Institutionalization of the Law

Luhmann characterizes religion as an articulation of relationships between the transcendent and the immanent (Luhmann, 2000/2013). In our immanent world, while both religion and economics set critical standards (Axial Age religions were the first critical theory (Eisenstadt, 1986) and welfare economics was the first critical theory in the social sciences), these standards are not self-implementable. We do not live a world where all actors have perfect information, nor where one actor has absolute power; such a world is analogous to the transcendent world postulated in religions. We do not live in a world where God controls directly how we act, and if God knows everything about our actions, it is in a transcendent world seemingly loosely coupled, even for believers, with the immanent world in which we live. Thus we are confronted with the necessity of controlling economic opportunism, of regulating moral-religious malfeasance, in the world in which we live. We do so, at least in part, through the law.

Contrary to legal positivists (including Luhmann (1972/1985)), the institutionalization of the law requires its legitimation in terms of moral standards, and while these moral standards are not necessarily "religious", they derive from religion, where they were first articulated. While the legal positivists claim that law derives its validity procedurally, that primary rules are valid when the due process outcome of secondary rules, constitutive rules, procedures[13], they are unable to explain why one set of procedures has this power of justification, when others do not. In fact, primary rules are valid only when they are the due process outcome of *legitimate* procedures, procedures that are consistent with the moral values that are partially constitutive of the law, and when they themselves, the primary rules, are also legitimate, consistent with those same moral values. When this is the case, actors view the primary rules as binding (Gould, 1992; Gould, 1993; Gould, 1996). This is the articulation between religion, which sets a moral standard, and the law.

However, not all actors will view these valid laws as binding. Some will approach them opportunistically. They will calculate the cost and benefit of violating them. To control such actors, to motivate them to conform, situational sanctions must be used as incentives. Known violations of the primary rules must be negatively sanctioned. This is the articulation of a theory of incentives, economics, which clarifies the application of these sanctions, and the law.

In our immanent world, legal norms are inextricably linked to the sanctions that support them, but an adequate understanding of this relationship requires the recognition that sanctions are more than incentives that must be aligned with the normative expectations; they are also crucial in the constitution and reinforcement of the principles themselves.

For Durkheim[14], the primary function of punishment is to characterize the boundaries of acceptable activity, to aid in constituting the normative. If an actor violates a legitimate norm, he must be punished to reinforce the binding nature of the norm among those already committed to it (Durkheim, 1893/1984, p. 63). If known violations of social norms are allowed to pass unpunished, the sense of normative obligation will be undermined (Durkheim, 1893/1984, p. 240). When the punishment is vested in an organized body representative of the social group, the institutionalized status of the norm for members of that group is manifest (Durkheim, 1893/1984, p. 52). The consequence of this punishment is the maintenance of social cohesion, by way of a reinforcement of the vitality of normative expectations.

Further, the application of negative sanctions in the face of deviance protects the righteous from being treated as suckers. If conformity to a social norm puts one at a disadvantage in comparison to opportunistic violators of that norm, knowing that deviance is likely to be punished enables those committed to the norm to conform to it without feeling like chumps, without feeling that they function at a comparative disadvantage to their more opportunistic compatriots. Normative obligations may mandate conformity to certain expectations, but actual conformity is more likely when interest and obligation are well aligned, when desire and desirable are congruent.

In our immanent world, the law is an institutional order, where legal norms are legitimated by values and supported by situational sanctions. This order is uncertain in its consequences, but like the theory able to characterize it effectively, one that conceptualizes both normative orders and situational constraints and opportunities[15], it is realistic in its characterization of the world in which we live.

Postscript: Theory

To analyze adequately the nature of the law, we need a theory capable of depicting it comprehensively; only then will we be able to explain its nature and variations. Economic theory is inadequate to the task (Gould, 1981; Gould, 1989; Gould, 1991; Parsons, 1937/1949). It is positivistic, conceptualizing a single, positively-stated normative orientation. The only subjective dimension in the theory is the end actors maximize, their preferences/desires/goals. It is thus incapable of conceptualizing meaningfully legal norms, and *a fortiori*, religious values. They must be reduced either to preferences, arguments in a utility function, or the situational sanctions that support them. Thus, while economists have theorized the nature and effects of incentives, positive and negative situational sanctions, with great sophistication, neoclassical economics is incapable of characterizing and explaining normative orientations[16].

Most discussions of religion are hermeneutic; they take seriously human subjectivity, and attempt to understand how religion constitutes a meaningful world as, in its post-Axial Age form, it constitutes religious commitments. These characterizations are idealistic, reducing human action to the normative orientations (or more generally to forms of subjectivity) that regulate it. Thus, they are able to characterize the moral values that legitimate the law, but not the situational sanctions that are brought to bear on those who approach the law strategically (Gould, 2013a).

As idealist and positivist characterizations of transcendent structures of religion and models of efficient economic relationships, these reductionist theories are adequate. As characterizations of binding law they fail miserably[17]. The law is a nexus of procedures (secondary rules) that justify primary rules. To be binding, both the procedures and the primary rules must be legitimate in terms of shared moral values. Only legitimate procedures have the capacity to justify. Primary rules that are illegitimate will be approached calculatingly, and conformity, when and if it occurs, will be motivated by sanctions. In addition, because there will always be people who approach valid laws strategically (and because all actors will act strategically sometimes), primary rules must be supported, more generally, by situational sanctions to motivate compliance. Known violations of legal rules must be punished. To scrutinize such legal institutions effectively requires a non-reductionist theory capable of conceptualizing both normative orientations (of various sorts), and the social situations within in which women and men act. Parsons has labeled such theories voluntarist (Parsons, 1937/1949).

Voluntarist theories conceptualize social action in a way that maintains the integrity of its subjective/normative orientations, but also recognize that all action takes place within social situations. Thus, in Durkheim's sense, they enable us to create a science of morality. In our terms, they enable the analysis of how law (and religion and the economy) function(s) in our immanent world.

The law is an institutional structure, a set of legal rules, justified procedurally and legitimated through a set of social values, and, at the same time, reinforced through the application of situational sanctions. It is unintelligible apart from a characterization of religion and economics as transcendent, but its successful analysis requires a theory capable of integrating effectively the two types of critical standards drawn from the articulation of religion and economics as critical "theories." At least since the axial age, our immanent world has been the articulation of critical standards with situational constraints, imperfect in its construction, yet aspiring to something better.

Notes

[1] This paper was inspired by the comment of a former student, Dary Patten, who, in an "Economic Sociology" seminar, suggested that actors in perfect-information neoclassical models were assumed to be god-like, omniscient and omnipotent

[2] In this paper, I explore neither the differences in the conceptualization of this original position, nor their consequences. In religion, such a discussion would take us into an examination of whether actors are conceptualized as fallible, perhaps due to "original sin," or fundamentally "good"; in economics, where actors, in equilibrium in perfect-information models, receive as a wage the value of their marginal product, we would examine why some workers would chose to work hard, for more, or less hard, for less.

[3] "We do not need to argue…that omniscience prevails over omnipotence of the will (or vice-versa). They are identical" (Luhmann, 2000/2013, p. 113).

[4] "Here," implicitly, refers to parliamentary democracies.

[5] Primary rules that are both legitimate in terms of shared social values and justified in terms of legitimate procedures may be said to be valid.

[6] In neoclassical theory, actors are understood to maximize (arguments in their utility functions) against constraints. When viewed, as it is often these days, as a theory of incentives, it is only the constraints, situational sanctions, that can be manipulated. In neoclassical models of the economy these are usually prices (Knight, 1933/1965); in neoclassical models of other social activities, including crime, they may be forms of punishment (Becker, 1976).

[7] In equilibrium, the productivity of each factor of production is intrinsic.

[8] For attempts to characterize the logic of religious commitment in various religions, see (Gould, 2005; Gould, 2013b; Schluchter, 1979/1981; Schluchter, 1989; Weber, 1917-1919/1952; Weber, 1958; Weber, 1904-1905/1958; Weber, 1964).

[9] The same argument might be made in the context of imperfect-information, efficiency-wage models (Bowles, 1985; Bulow & Summers, 1986; Shapiro & Stiglitz, 1984/1986).

[10] This argument is paradoxical. In Arrow-Debreu models there is no power; capitalists have no power over workers, who are protected by other capitalists; workers would make the same economic decisions as capitalists, e.g., organize production in the same way as capitalists (Roemer, 1982; Roemer, 1982/1986). The paradox is that the same is true in models that assume absolute power. Implicitly we have presumed that capitalists have such power, but we might as well postulate that such power is vested in workers.

[11] This conclusion may be derived from mid-twentieth century discussions of socialism, which showed that the source of inefficiency in a command economy is imperfect information/imperfect control. See, for example, Trotsky's remarks: "If a universal mind existed, of the kind that projected itself into the scientific fancy of Laplace – a mind that could register simultaneously all the processes of nature and society, that could measure the dynamics of their motion, that could forecast the results of their inter-reactions – such a mind, of course, could a priori draw up a faultless and exhaustive economic plan, beginning with the number of acres of wheat down to the last button for a vest" (Trotsky, 1932). The same conclusion may be derived from transaction-cost economics; see, for the first statement, (Coase, 1937/1952).

[12] "Treason doth never prosper: what's the reason? Why, if it prosper, none dare call it treason" (John Harrington). The presumption is that God's standard is not effaced when evil prospers.

[13] This procedural position, which, in one way or another, sees moral values as irrelevant to positive law, is widespread; see (Habermas, 1992/1996; Hart, 1961/1997; Luhmann, 1972/1985).

[14] This paragraph and the next draw on my "Social Norms: A Critique of Law and Economics Formulations and a Guide to their Correct Conceptualization" (Gould, 2001b).

[15] This is the "voluntaristic theory of action" that Parsons posited in *The Structure of Social Action* (Parsons, 1937/1949).
[16] I make this argument comprehensively in (Gould, 2001b). See also (Gould, 2001a).
[17] Of course, they also fail as characterizations of actual economies and religious institutions in the immanent world.

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