

# **Economics making markets is not performativity**

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## 1. Introduction

Sociologists Michael Callon, Donald MacKenzie and others have argued that economics has a “performative” relationship with the economy. Economics does not describe and explain a pre-existing economy, but rather shapes the social world by “performing” it. For example, the structure of financial markets and the practice of finance are influenced by modern finance theory (MacKenzie 2006). Economists have been active in advising governments in Bolivia, Chile, Poland and Russia by designing markets and policies (MacKenzie et al 2007, 2). The performativity theorists have adopted the term from J.L. Austin’s theory of speech acts, apparently believing that this will bring illumination to the many ways in which economic ideas and practices are intermingled. I remain unconvinced about this and will try to point out that instead of illuminating it, this terminology has managed to obscure an important set of facts about social reality.

Claiming that economics or economic theory is “performative” in that it “performs” the economy implies that the social world does not exist economics-independently. Like the earlier and similar idea of “social construction” and its kin, “performativity” has remained obscure in its precise contents and consequences. It appears to cover a broad variety of ways in which the economy is economics-dependent; and to challenge scientific realism about the social sciences. The paper examines the notion in some detail from these two points of view: that of the nature of the relationship between economics and the economy; and that of implications for (my minimal construal of) scientific realism. For both of these issues, it is important to show that the notion of performativity used in the literature in question may mislead and that it is to be kept apart from the authentic Austinian notion.

## 2. The performativity thesis

It is hard to find a clear unambiguous definition of performativity in the literature. It is helpful to consider the available characterizations as exemplifications of this general form of statement about performativity:

*X performs Y*

*X* is taken to denote things such as ‘economics’, ‘economists’ and ‘financial models’; *Y* stands for ‘markets’ or ‘economic processes’ and so on; while the relationship between *X* and *Y*, that of performing, is also referred to as ‘shaping’ and ‘making’ and ‘constructing’ etc. These expressions appear in the titles and subtitles of two representative books: *Do Economists Make Markets?* and *How Financial Models Shape Markets*). So it would seem that generally, when *X* performs *Y*, it is the case that somehow *X* contributes to the existence or emergence or (change in the) properties of *Y*.

Often the “performativity thesis” is contrasted with the idea that economic theory describes and explains economic phenomena. The “traditional” views rejected by the performativists are variously formulated. So goes Callon: “The discovery of formulas such as that of Ramsey or of Black-Scholes does not change behavior; it describes and clarifies it, just as Newton’s laws have not changed the behavior of falling apples” (Callon 2007, 314). This suggests that performing involves changing rather than describing behaviour. Callon puts this also by saying that “discourse *acts on* its object” (2007, 316), while MacKenzie talks about “option theory’s practical consequences” (2006, 6), and so on.

Another way of putting the idea is to claim that economics and economists are inside rather than outside the economy. “By participating in the economy, [economics] would place itself within the object it is supposed to be studying from the outside...” (Callon 2007, 315). MacKenzie puts it similarly: “The academic discipline of economics does not always stand outside the economy, analyzing it as an external thing; sometimes it is an intrinsic part of economic processes. Let us call the claim that economics plays the latter role *the*

*performativity of economics.*” (MacKenzie 2006, 16) (This is not a new idea. It refers to what economists often call the endogeneity of economics or economists in the economy.)

None of these formulations as such suffices to convey a precise idea of what performativity is. MacKenzie’s much-cited typology of kinds of performativity (MacKenzie (2006, 17) might be expected to offer some help:

*Generic performativity:* An aspect of economics (a theory, model, concept, procedure, data set, etc.) is used by participants in economic processes, regulators, etc.

*Effective performativity:* The practical use of an aspect of economics has an effect on economic processes.

*Barnesian performativity:* The practical use of an aspect of economics makes economic processes more like their depiction by economics (while *counterperformativity* makes them look less like their depiction by economics).

This prompts many observations, among them the following. First, it appears that it is not correct after all to take performativity generally to imply making a contribution or having a consequence – these are characteristics of effective and Barnesian versions only. Second, given that the relationship between economics and the economy is mediated by “use” and that use can be part of an external relationship between two things, these formulations fail to imply that economics is intrinsic to the economy. Third, Barnesian performativity suggests that performativity does not rule out the possibility of true description. This is captured by Callon who implies these things do not exclude one another: “discourse contributes to the construction of the reality that it describes” (Callon 2007, 316). My tentative conclusion would be that the typology does little or nothing to improve clarity on the notion of performativity. As we take a closer look at the notion, this conclusion will be reinforced.

### 3. Constitution and causation

To examine the performativity thesis, it will be useful to look at the original idea. On Austin’s (1962) account of performativity, one performs an action by uttering some string of words, a performative sentence. If I say “I promise to deliver the paper by the deadline” I am thereby promising to deliver the paper by the deadline. To utter a performative sentence is not to

describe a pre-existing action (e.g. that of promising), it is to perform that very action. *Saying so makes it so.*

This can now be used to introduce the key distinction in my argument. The connection between speaking words and doing things is one of *constitution* rather than causation. Saying “I apologize” constitutes the act of apologizing. Saying “I agree” constitutes the act of agreeing. Those utterings do not *cause* those acts, rather those acts are *constituted* by those utterings. To utter those sentences *is* to take those actions.

This authentic meaning of performativity has been obscured by the literature on how economic theory can have consequences for economic reality. MacKenzie recognizes the Austinian use of the term in characterizing certain speech acts in the world of finance such as when agreements and contracts are made. When, in response to an offer to sell or buy an asset at a particular price, someone says “done” or “agreed”, then a deal is agreed (MacKenzie 2006, 16). Indeed, uttering such words performs the act of agreement, or in other words, constitutes it in a non-causal manner.

However, right thereafter the word ‘performativity’ is given three meanings that as such seem unrelated to the authentic meaning: an aspect of economics, such as an economic model, is “performed” in the sense of being used by economic agents (“generic performativity”); its use has consequences, so it makes a difference (“effective performativity”); and its use makes the model more true (“Barnesian performativity”) (17-19). MacKenzie’s prime example is finance, so this gives three (or at least two) kinds of dependence of certain practices of finance in the real world on certain theories of finance – such as the Black–Scholes–Merton formula for option pricing.

In none of these three types of case is the relationship between an aspect of economics and some aspect of the economy constitutive. A constitutive relationship would require that uttering or writing down an economic model for an audience (that understands the model and perceives the uttering as genuine) establishes the model world as part of the real world. What is important is that in MacKenzie’s three kinds of case, the connection between economics and the economy is supposed to be implemented by the “*use*” of economics by economic actors. But using an economic model goes well beyond just recognizing it uttered or written down

and understanding its meaning. Use involves taking further action. This undermines the idea that saying so non-causally makes it so. A distinction must be drawn between constitution and causation, between an economic theory or model being connected to economic reality constitutively and causally.

Note that it is part of one of the core meanings of ‘perform’ that when performing a task (or perhaps a play), one accomplishes it through and through, completely from the beginning to the end. In virtue of the constitutive power involved, the Austinian notion of performative speech act has this connotation, while even the strongest “Barnesian performativity” does not have it; it is enough for the latter that the world becomes *more similar* to the model, so that the models becomes *more true*. By contrast, if I say “I promise to pay you 100 euros tomorrow” I will have thereby given a promise to pay you 100 euros tomorrow, not just some sum  $\{0,100\}$  nor anything less than a full promise nor any time later than tomorrow. Such compromises would be equivalent to “more similar” and “more true” in a model becoming less than completely true in consequence of being used. So even Barnesian performativity fails to be an instance of authentic Austinian performativity.

Naturally economic theorizing can have many kinds of consequences for the economy. But these consequences largely flow through indirect causal rather than direct constitutive connections. The popular phrase used is that the economy is “shaped” by economics. Literally speaking, economic theories do not shape the economy. Nor does economic inquiry. People do. In their various roles (as policymakers, students, investors, entrepreneurs, workers, consumers) people are exposed to the results of economic inquiry and they learn, directly or indirectly, about the contents of economic theories, explanations and predictions, and are inspired by them, perhaps by being persuaded by the proponents, so as to modify their beliefs and perhaps their motives. These modified beliefs and motives make a difference for their behaviour, and this has consequences for the economy. The flow of these connections is a matter of indirect causal influence rather than direct constitution.

The same holds also for MacKenzie’s strongest form of “performativity” whereby the use of a model makes it more true, makes it more closely correspond to the world. If it happens that certain practices in real world finance are in line with the Black–Scholes–Merton formula for option pricing, this does not mean that the theoretical formula or its uttering by those three

and other academic scholars “performs” those practices, making them occur by constitution. They may occur because the theoretical formula has managed to travel from academic research to economic practice in the manner outlined above. The connections are causal.

Sometimes the role of economists is rather direct in contributing to the shaping of the economy. In such cases the economist acts like an engineer rather than a theoretician interested in explaining phenomena. This is so in the new “design economics” that is directed towards meeting the practical demand for designing well-functioning markets (for whatever, such as electricity or kidneys) while meeting some moral or other constraints (Roth 2002). This is also so, while perhaps less purely, in the role played by economist advisors in pushing the rapid transition towards the market economy in Russia, regardless of whether it was a matter of Western economists imposing their favourite market model upon Russian decision-makers or whether there was a long tradition of transnational dialogue behind these events, preparing the economists in Russia and elsewhere in Eastern Europe for these radical changes (Bockman and Eyal 2002). In these and other cases, the overall process is causal. The mediation is complex and involves all sorts of political and technical elements.

One should add that the complex process through which these influences from economics to the economy travel may, and typically does, contain performative links. In creating new markets, acts such as those of contract and legislation take place, and these acts involve performative speech acts. In other words, there are constitutive links in the overall causal chain that connects economics and the economy.

The talk about performativity in characterizing the economics/economy relationship is unhelpful for several reasons. It departs from the authentic Austinian notion. And it obscures the important difference between causal and constitutive relations, thus misses a conceptual resource that could be fruitfully used for a nuanced analysis of the complexities in the economics/economy relationship.

#### 4. Scientific realism salvaged

As I see it, a necessary condition for scientific realism to be a viable philosophy about economics is that the idea of independence be understood properly. Ordinary definitions of

realism are put in terms of mind-independent existence: realism about X requires that X exists mind-independently. This is not a good idea. Nothing in society exists mind-independently. My alternative idea is in two steps. First, the more appropriate notion of independence for scientific realism is science-independence. Second, realism must allow for causal science-dependence while forbidding constitutive science-dependence. So scientific realism about economics requires that there is a way things are in the economy that is constitutively economics-independent.

There is a sense in which many things in society depend on science for their existence. Our social institutions and practices, beliefs and norms are deeply shaped by the products of science, from physics and biochemistry to epidemiology and psychology. Economics can be added to this list. There is a connection between the science of economics and the economic world that flows from the former to the latter. Economic theories and research results shape people's beliefs and worldviews in ways that are relevant to their economic behaviour. Policy advice based on economic theories and research results shapes economic policies, and these in turn shape the economy. Moreover, economic theories, people's beliefs and economic facts are often connected through mechanisms of self-fulfillment and self-defeat. There is no doubt that some portions of the economy are dependent on economics.

The distinction has no such implications when applied to the subject matter of economics. The social world contains both causal and constitutive relationships, and realism is comfortable with both, simply because they are part of social reality. There is a formal contract between two economic actors provided these actors believe it is there and they – sometimes together with third parties – have performed the right sorts of speech acts indicating agreement. Such contracts belong to the subject matter of the economic theory of contracts. They are science-independent in that they are not created by acts of economic theorizing. Facts about such contracts are constituted by the beliefs and performative speech acts by the contracting parties, but they are not constituted by acts of scientific theorizing about them. This is performativity within the economy, but not between economics and the economy. This is of course compatible with the possibility that economic agents use the economic theory of contracts in practically drawing contracts.

There is another way of seeing why a constitutive (Austinian-performative) relationship between economic theory or model and economic reality is unachievable. Even the possible causal connections between a theory and economic reality are limited in their powers to alter reality. Many of the idealizations of finance theory or particular models such as Black-Scholes-Merton are not made true by becoming known or found inspiring or persuasive among market agents. Many of them just cannot be made true. Agents won't become omniscient or hyperrational even if they were to become increasingly calculative and self-seeking by being exposed to economic models in which agents are so portrayed. Transaction costs may diminish but not all the way to zero in consequence of using models that assume they are zero. The social world is not malleable just by theorizing. Practical action is needed.

It is no threat to scientific realism about economics to acknowledge the possibility of causal economics-dependence of some items in the real-world economy. After all, economics as an academic discipline is itself social activity exercised within society, so such connections are a natural feature of social reality. What scientific realism about a fragment of science insists is the non-causal science-independence of the objects examined by that fragment.

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