

**Review of *Enacting Dismal Science: New Perspectives on the Performativity of Economics*, edited by Ivan Boldyrev and Ekaterina Svetlova. London: Palgrave Macmillan, 2016, vii + 206 pp.**

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Economics, as the volume editors Ivan Boldyrev and Ekaterina Svetlova submit, does not merely describe or explain, but also actively shapes—“performs”—the economy. This is how we may understand the performativity-of-economics thesis: Economists shape markets either directly, through the design of theories and policies based on them; or indirectly, through shaping cognitive infrastructures that economic agents use to make economic calculations, buy, and sell.<sup>1</sup>

Boldyrev and Svetlova are interested in understanding what performativity is (and whether there is such a thing at all), and how the performativity of economics matters for social life (for example, in individual and collective sense making, or in the stabilization of collective practices). And indeed, both the existence and relevance of performativity are hotly contested issues. This, if anything, is what *Enacting Dismal Science* manages to prove. When it comes to performativity, careless generalizations have been overabundant—making it difficult to have a sensible conversation about the impact that economists may have in shaping the social world that they study. This volume takes on the challenge and struggles to get over bitter and unresolved disputes.

Conversations on performativity might at times give the impression that the world we live in has been prefabricated by an almighty clique of ivory-tower residents without whom, as Fabian Muniesa (chap. 5) implies, “things such as ‘economic preferences’, ‘marginal utility’,

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<sup>1</sup> The seminal contributions to this thesis have come from Callon (1998) and Mackenzie (2006). More broadly, the performativity thesis may be read as an aspect of the discussion on whether economic ideas have consequences (see, for example, Colander 1991, or Šřastný 2010). The standard answer to this question is usually: “Yes, economic ideas influence policymaking”. The performativity thesis, however, wants to go beyond such an answer and look into diverse manners through which economics shapes everyday understandings.

‘transaction costs’, ‘equilibrium prices’, ‘rational expectations’, ‘aggregate demand’, ‘credit risk’ or ‘cost of capital’ would be much less prominent than they are today, or they would not exist at all (111). Muniesa follows Michel Callon (1998) arguing that economies are embedded in economics, rather than in, say, civil society.

Contrary to such strong claims, many practicing economists affirm that they merely describe—or, perhaps, now and then manage to discover and explain—routines that have already been out there, and that would have existed regardless of whether we theorize about them or not. While the former view overestimates the ability of economics to shape the economy, the latter neglects it almost completely (Dequech 2008).

One of the main issues that Boldyrev and Svetlova (chap. 1) set out to shed light on is “the familiar question on why some forms of knowledge become performative while others do not” (17). To answer this question, we need to make clear what we mean when we say that knowledge becomes performative. If we abandon the metaphysical worldview where everything (or nothing) is performative, we might identify a specific kind of performativity that makes a difference in the world even after we account for economic interventions based on economic reasoning or vested interests so that, had it not been for a particular set of ideas, the world would have been a different place.

This kind of performativity is often illustrated by the use of the Black-Scholes model which was meant to provide a short-hand for calculating risk and return of financial assets, but, once adopted by market participants, came to be a near-perfect description of that market (Mackenzie 2008). The key point is that the model—which is first developed to describe or explain a set of phenomena—in fact starts to influence these phenomena to correspond more to the assumptions of the model, regardless of whether the agents know the model or not. This influence does not happen merely through changing beliefs, although how people understand the world is clearly important;<sup>2</sup> it also happens through technological changes that start reflecting the new theory. In the case of the Black-Scholes model, an important

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<sup>2</sup> Mackenzie points out that the Black-Scholes model provided legitimacy for trading with derivatives, making it conceptually distinct from gambling: “At least a small part of the [performative] process, however, was the way in which, by making options trading seem legitimate, option theory contributing to the emergence of the high-volume, efficient, low-transaction-cost liquid market the theory posited” (Mackenzie 2007: 256-257).

technological artifact was simply a sheet of paper full of seemingly randomly scattered numbers that made it possible for buyers and sellers in markets to communicate in a wholly different way. As Francesco Guala (chap. 2) argues, economic theory thus arguably provided a conventional way to set prices, making the Black-Scholes model effectively performative. It seems that, at least for a particular period of time, the formula made a difference by shaping the world it had intended to explain in the first place.

Was the IS-LM model performative in the same way as the Black-Scholes formula might have been?<sup>3</sup> Hanno Pahl and Jan Sparsam (chap. 7) are skeptical. Few people will deny that the mathematical incarnation of Keynes's macro-economic theory as incorporated in the neoclassical synthesis developed by Hicks, Hansen and Samuelson did not make a difference in terms of policymaking. The technocrats of the world are often accused—and, often, rightly so—of seeing and treating world economies as if they were hydraulic machines. But if the IS-LM model indeed were performative, it seems to have been so in a generic way through policymaking, economic analyses, fiscal activism and monetary policies. It does not seem to be the case that a widespread use of the IS-LM model shaped the world to make it truer (or less true, for that matter) to its economic representation.

Did the IS-LM make wages stickier? Was stagflation a case of the counterperformativity of the Phillips Curve? Was there any aspect of the model that shaped the world, regardless of whether the agents understood the model? While economics, and the IS-LM model in particular, does shape the world in a generic way—by, among other things, providing tools for policymakers—the nature of such effect seems to matter for an understanding of the impact of vested interests, rather than for disentangling the impact that ideas have on molding the social life.

Philip Roscoe (chap. 6) calls for radicalism when it comes to performativity of economics. Roscoe wonders whether “an economist [would] be upset if ‘accused’ of designing markets?” (131) But what kind of an economist do we have in mind here? It seems to be abstruse for some non-economic critics of economic performativity that economics is not a homogeneous mass that unambiguously produces consensus

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<sup>3</sup> We might, of course go beyond and ask whether the introduction of Gross Domestic Product made a difference for the actions and interactions of economic agents. What about the efficient market hypothesis, or, perhaps, the Doing Business Index published by the World Bank Group? Do these theories or their aspects perform the economy?

about how to efficiently allocate resources by way of fine-tuned competitive markets. Instead of reifying economics as such a homogeneous mass, we should consider which economic theories are performative and why, rather than merely say that economics, as a whole, is performative.

A brief overview in history of economics should be sufficient to show that political economy, or economics, has been a perpetual debate over key issues producing disagreement, diverse schools of thought, and competing methodologies. The seeming post-WWII triumph of neoclassical economics is undeniable, but if it is the case that economics is based on a pluralist methodology that produces anything but a consensus on a number of key issues, then we should be skeptical when we hear, as Roscoe contends, that merely through describing the world in a particular way, economists in fact create that world (133f). If neoclassical economics is performative, does post-Keynesian economics also have the capacity to perform the economy? If so, “how could multiple conflicting theories coexist and create incompatible worlds?” (Hodgson 2010, 403) Does anything go or are there some limits on performativity (Felin and Foss 2009a; 2009b)?

I will address limits on performativity below, but I suggest we now pause to think about what economists actually do agree on. If there is one thing that economists seem to agree on almost without exception, it is that incentives matter. Carsten Herrmann-Pillath (chap. 3), however, argues that incentives are nothing else than a kind of signs and, as such, they must therefore be interpreted by those who perceive them. If all economic agents interpret incentives in the same way, we may, indeed, infer that under such a system of tight institutional constraints, the same set of incentives will lead to the same action—given a stable set of preferences.<sup>4</sup> If, however, incentives and preferences are not perfectly separable, then incentive structures may, in fact, not be neutral with respect to preferences as economists often assume. In such a case, we may say that incentive structures are performative. This, in turn, implies that we cannot expect any universal regularities, because the same set of signs or incentive structures may mean different things to different agents and may thus lead to different behavioral outcomes.

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<sup>4</sup> For a theoretical account of tight system constraints and their effect on economic coordination, see Koppl (2002). To see how researchers might—intentionally or not—have created such a system of tight constraints in the lab, thus conditioning the outcome of their experiment, see the chapter by Juliane Böhme (chap. 4).

If theories are made of signs and symbols and if these signs need to be interpreted before they can influence agents through their preferences, why should we then expect that an economic theory, or a model, will shape the reality it is supposed to explain in a particular way? Will a particular economic model have a performative effect at all? And if so, how can we know that the effect will not be “counterperformative”, in the sense of making the explained reality correspond less to the assumptions of the model (Mackenzie 2006, 31)?

To avoid dead-ends and to help resolve bitter disputes, the concept of performativity must become useful and, above all, operational in answering such questions. Boldyrev and Svetlova suggest that, to that end, we zero in on a couple of key questions: Why do some ideas become performative while others do not? Why do some forms of knowledge affect the reality in a particular way, making the reality more (or less) like the knowledge we have of it?

First, to help the performativity discussion progress, we need a criterion that will help us make the concept of performativity less metaphysical and more empirical, by saying when a theory performs the economy and when it does not (as opposed to saying that everything/nothing is performative). Secondly, we must specify conditions that a theory needs to satisfy in order to perform, rather than (merely) explain economic phenomena. These two criteria may tell us something about what makes new ideas, theories, or models sound, and conceivably coordinative.<sup>5</sup>

Svetlova (chap. 8) argues that ideas perform economies by means of the causal process of persuasion. But trying to explain the emergence of novelty, be it in new theories, new products or in new institutional rules, we cannot help but notice there are limits to entrepreneurial persuasion. The entrepreneur must make sure that a critical mass buys into the new idea, thereby adjusting its conduct with respect to it. A novel idea or a new theory may require that it is more sound—or, perhaps, more coherent with the existing structure of knowledge—than its counterparts in order to succeed. Thinking about economic theories and models in this way sheds new light on the active role that economists

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<sup>5</sup> “Soundness” of new ideas alludes to the concept of “saleableness” (*Absatzfähigkeit*) introduced by Carl Menger (1892) to explain why certain commodities are more likely to spontaneously become a universally accepted means of exchange. Perhaps, as it is the case with commodities, all ideas are not equally “saleable” or “sound” and understanding what determines the “saleableness” of ideas may help us understand which ideas are performative and why.

play in developing the organized body of knowledge as well as on the kind of reality checks they need to consider when proposing a new theory. We can now better understand the space for the academic entrepreneur who needs to sell academic ideas to particular constituencies, before these ideas can start molding the institutional infrastructure. Ideas do have consequences, but not without an active process of ‘selling the idea’.

Besides persuasiveness, the present book offers three other factors that might explain the success of some economic models acting upon the social world. Guala (chap. 2) suggests that, in the case of the Black-Scholes formula in particular, it was the epistemic authority of economics, the simplicity of the formula, and its uniqueness (39-40). These three factors, suggests Guala, could help us understand why the formula became a focal convention: People must have faith in the idea (even if they do not understand its underlying logic). They must be able to easily apply that idea to identify an adequate course of action. And the idea must be fairly unique so that no prominent competitor can cast doubt on it (39-40).<sup>6</sup> While certainly not final, such a list of factors that explain the potential performativity of ideas makes the idea of performativity more tangible. A list of factors explaining performativity is a step in the right direction helping us to understand why, for example, economists cannot implement just about any kind of market design without respecting the conventional context.

Boldyrev and Svetlova have set out a challenging and important task to push forward the dispersed streams of thought on performativity of economics. While this volume offers a solid reconstruction of the historical origins of the concept, and while it addresses some of the main criticisms of performativity, the question remains whether we are converging to anything like a theory of performativity. If so, it seems we still have a long way ahead.

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<sup>6</sup> Relatedly, Brisset (2016), suggests that for a theory to become performative, it must be empirical, self-fulfilling and coherent. In other words, the theory (or its aspect) must identify exclusive forms of conduct constituting clearly identifiable frames for such a conduct (an example is the “nudge” theory classifying behavior as rational or irrational). Secondly, a theory should become true when people (intentionally or unintentionally) accept it. And, thirdly, a theory must survive a reality check to become performative. In other words, it must fit within existing understandings (social frames) meaning that not all theories can be made to perform the reality. For a related notion of institutional coherence, see Lachmann (1971).

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