Economic Geography Research Group Annual Symposium
'Understanding markets'
27 April, 2005, London School of Economics

The annual EGRG symposium this year was hosted by the London School of Economics. Geographers and other social scientists met for an afternoon of discussion on markets, with regards to issues of performativity in economic theory and practice. This meeting was organised by Dr Michael Samers (University of Nottingham) and chaired by Dr Shaun French (University of Nottingham). The focus of discussion for the afternoon was based on a plenary presentation by Professor Donald MacKenzie (University of Edinburgh), titled 'Is economics performative? Option theory and the construction of derivatives markets'.

Through his engaging and rather 'performative' presentation, Professor MacKenzie demonstrated how the construction of a market in derivatives was made possible by the application of financial theory, in such a way that economics (as a discipline or academic exercise) can be said to 'perform' the economy. The economy is not an external object that economics describes or theorises about; economics and economic practices actually *do* the economy. This poses a challenge to conventional ways of thinking about economics as analysing a reality external to itself. A theory of options pricing was used as a case study to illustrate the role of finance theory in financial product innovation. In the 1970s, Chicago operated an open cry system in its trading pit, a very 'bodily' space where trading was performed through the body, through hand gestures, sweat, heat, positioning and so on. But another kind of performativity was at work – the Black-Scholes equation which related option price to the price of underlying assets. This equation devised by Fischer Black and Myron Scholes (later reworked by Merton) was used to generate *theoretical* option sheets which came to affect *actual* trading performances and prices when the derivative sheets were used by traders in the pit. Professor MacKenzie called this 'Barnesian performativity', where the "practical use of an aspect of economics makes economic processes more like their depiction by economics". Instead of being seen as gambling or wagers, the Black-Scholes-Merton analysis came to provide some form of legitimacy to op tions trading by connecting it to efficient pricing and market theory. This options pricing theory also came to be used in other financial products such as portfolio investment, insurance and pension funds. This performativity of economic theory, however, can be undermined. The October 1987 market crash was an example – an unlikely event according to the Black-Scholes-Merton analysis. That behaviour was due to traders reacting to another kind of performativity in the pit, as traders and brokers read each other's body language, expressions and behaviour and sold accordingly. This was an instance of the 'counter performativity' of the theory.

Responses to Professor MacKenzie's presentation were invited from five panellists, who approached the issues raised from different perspectives and research experience. Dr Don Slater (London School of Economics) pointed out that the term 'performativity' had become ubiquitous in geography and needed to be unpacked and specified. He raised the question of how useful are these lessons from the financial markets for general notions of performativity. In consumer markets (e.g. marketing and advertising), where there are non-homogenous goods, fragmented and provisional knowledges and where mixed approaches or ideas are the norm, economics do not necessarily perform in the same way as in the capital exchange markets.

Professor Andrew Leyshon (University of Nottingham) highlighted the importance of serious engagement with works in economics and financial markets due to the power of economics and the serious consequences of its ‘performativity’. A social understanding of finance was pointed out as being particularly important due to possible political implications. Such body of work as demonstrated by Professor Mackenzie is important in opening up economics and finance theories to wider scrutiny, making them less frighteningly technical so as to invite greater participation from wider disciplines. Professor Leyshon also raised the question of investigating when do economists ‘lose control’ of their theories, how it happens, who are the actors involved, and the consequences.

Dr Angus Cameron (University of Leicester) brought up the issue of narrativity and performativity in globalisation, and how it needs to be seen as a set of discourses and related practices, more significant in its performances than its empirics. He highlighted some ‘ghosts’ or strands that were ever present in the background of Professor MacKenzie’s presentation but could merit further examination. One of these is the role of law and legal interventions. The options market and associated performativity did not occur in a vacuum, there had to be legalisation and standardisation structures in place to enable their performance. The performativity of laws could be another strand that may prove inspiring in this work. Dr Cameron also pointed to the gendered nature of financial markets analysis, that the highly masculinist set of discourses and performativity in the trading pit draws from a historically masculinist environment (in both the financial markets as well as economic theory) which has excluded women. This imbalance is increasingly being addressed by researchers such as Linda McDowell.

Dr Andrew Murphy (University of Birmingham) applauded Professor MacKenzie’s bodily performance and accounts of sweat, spit, voice coaches and brandishing of pencils. He also commended this increased embodiment of actors in an otherwise distant market to highlight its sociological and political context. However, he suggested that this account of the options market could benefit from a preliminary discussion or definition of “market” and its social construction: does it relate to physical space (the trading pit)? Is it a social event (the interaction of traders and brokers)? Is it purely transactional (as carried out via computing and communication networks)? Or is it regulatory? Using his research on the organic food market, Dr Murphy demonstrated another example of performativity in markets in how seemingly dispersed and unorganised farmers sought to standardise and brand a set of practices (the production and consumption of organic produce). Local farmers and retailers did this through certification schemes and by holding events such as farmers markets, fairs and niche festivals to ‘create’ an organic food market. Such ‘performances’ made the organic food market ‘real’ and confer particular identities to both consumers and producers.

During the general discussion that followed, there was agreement that financial markets need to be examined in terms of their practices. These are often portrayed as being technical but the social practice aspects need to be exposed and examined as they could have political significance. Another interesting suggestion pointed to the ‘market’ in geography and academia, performed through practices like the RAE, the circulation of PhDs from other disciplines and popularity of particular semiotics as certain methods become ‘fashionable. The symposium this year was well-attended and everyone benefited from the thought-provoking presentations and fruitful discussion. However, there seemed to be few postgraduate students at the event, which could be due to the London venue, with increased the cost of attendance (registration and travel).

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