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Institutions, distributed cognition and agency: rule-following as performative action

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No. 157

Institutions, Distributed Cognition and Agency: Rule-following as Performative Action

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Abstract

Recently, Aoki proposed the concept of substantive institutions which relates outcomes of strategic interaction with public representations of equilibrium states of games. I argue that the Aoki model can be grounded in theories of distributed cognition and performativity, which I put into the context of Searle's philosophical account of institutions. Substantive institutions build on regularized causal interactions between internal neuronal mechanisms and external facts, which are shared in a population of agents. Following Searle's proposal to conceive rule following as a neuronally anchored behavioral disposition, I show that his corresponding notion of collective intentionality can be grounded in recent neuroscience theories about imitation as the primordial process in human learning. I relate this with Searle's concept of status function and the neuronal theory of metaphors, resulting in a precise definition of rule-following as performative action. I present two empirical examples, the institution of money and status hierarchies in markets.

Keywords: Aoki's concept of substantive institutions; Searle; collective intentionality; emotions; imitation; performativity; sign systems

JEL classification: B52, D02, D87

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1 Introduction

During the recent debates over the rise of neuroeconomics as a new foundational field in economics, four strands of thought emerged in assessing its position in the established theoretical structure:

- Leading neuroscientists tend to apply the standard economic model of choice in the neuroscience context, aiming at a unified theory of choice, which, however, would be a naturalistic version of the standard model, because that is seen as being undergirded by neuronal mechanisms (Glimcher 2003, 2009).

- Leading behavioral economists working in the field of neuroeconomics argue that the new results point towards a revision of the standard model, with far-reaching implications e.g. for normative economics (Camerer et al. 2005, Camerer 2006).

- The third position is to claim that neuroeconomics is totally irrelevant for economics, because the standard model of revealed preferences is a purely mathematical description of observed choices, and therefore does not need any reference to inner states of individuals at all (Gul and Pesendorfer 2008).

- The fourth position considers this claim, and reaches another conclusion, namely that this shows that the standard economic model does not refer to the ontological level of individuals at all, but to the systems level, with the standard model as an emergent property that is ascribed to 'individuals', or any other computational mechanism; in this framework, neuroeconomics is valid as a description of the underlying physical mechanisms in the particular context of brains, and may be redescribed by means of the standard model (Ross 2005, 2007b, 2008).

In this paper, I wish to present another approach, which starts out from the fourth position. This proposal is informed by the recent developments in the cognitive sciences, economic sociology and the philosophy of mind. I propose a *distributed cognition* model as a framework for neuroeconomics and related approaches (compare Wilcox 2008). The distributed cognition model is no stranger to economics, as it is a central part in Hayek's evolutionary thinking, which has been cited as a possible framework for integrating the new trends in economic research also by Vernon Smith (2003). However, so far the implications have not been further explored, presumably because this requires to move far beyond the conceptual frontiers of economics, thus laying open even more points of attack to the protagonists of the third strand of thought mentioned above, which strives to maintain the axiomatic closure and independence of economics.

The central idea of a distributed cognition approach to economics is to state that individual agency emerges at the interface of two ontological levels, namely the level of neuronal processes in the brain, embedded into its body, and the level of external physical facts with which the brain interacts in a regularized and systematic way. This view differs from existing approaches in a twofold way. Firstly, the neuroeconomic agenda remains to be a core feature, but at the same time it can never be posited as a full explanation of human choice, because the supposed causal mechanisms are incomplete, neglecting the systematic role of external phe-

nomena in human cognition. Secondly, the emergentist view on the standard model as a system descriptor is recognized, but at the same time this is given a naturalistic interpretation, which implies that causal interactions with neuronal facts continue to be seen as essential, as well as the physical complements of the system level phenomena. In a nutshell, this corresponds to Hayek's (1979) view that human knowledge, which underlies human agency, is distributed across bodily features (genetic dispositions, brain structures etc.) and external facts (cultural patterns, market signals etc.), and is only to a very limited degree accessible to individual conscious thought and decision making (compare Oullier and Basso 2010, Basso et al. 2010).

I propose a theoretical notion imported from recent research in economic sociology to analyze this interaction between the neuronal and the external level, which is performativity (Herrmann-Pillath 2010a). As I will argue in detail, performativity is introduced as an aspect of human agency which provides the microfoundations for distributed cognition. This conceptual role corresponds to the role of the term in linguistics and the philosophy of language, from which it is borrowed (for a survey, see Lycan 1999). A performative speech act refers to an act which creates a social fact, such as a promise or a declaration. This act is an expression of individual agency, but at the same time it depends essentially on the irreducible social nature of language, both in the sense that the meanings of words cannot be arbitrarily changed by individual choice, and that the implications of the meanings become binding commitments, against the background of the defining rules of the language game. I develop a generalization of this concept of performativity and argue that economic behavior is performative to a large degree, if not in principle. Agency, in the economic context, is performative in being driven by the interaction between processes internal and external to the individual, as defined by the physical boundaries of its body. I go beyond standard notions of performativity in offering an explicitly naturalistic account, which follows corresponding naturalistic approaches in the philosophy of mind (for a survey, see Papineau 2007).

In doing this, I pull together literature from different fields and even domains of research. The concept of performativity has been introduced into economic sociology in the context of the more specific question how far economic theory is performative, with financial markets as a workhorse (MacKenzie 2006, MacKenzie et al. 2007). Extensions have already been proposed in the literature, mainly in focusing on specific economic phenomena, such as the price, which, in this view, is seen as a concrete material fact in communities of economic agents acting in physical space and time (Callon 2007, Callon et al. 2007). So, my approach is also related with the general trend in economic sociology to reconsider the materiality of the economy (Pinch and Swedberg 2008). I relate this line of thinking with the general program of naturalism in the social sciences in general, which is highly diverse, in turn, so in many respects just offering a rich source of inspiration. Mainly I draw on the work by John Searle (1995, 2004, 2005), in particular, in providing the essentials of a naturalistic theory of institutions, and I am aware of the fact that this approach manifests many family resemblances with other approaches to a realist ontology in economics, especially with a focus on a generalized criterion of causality (Bhaskar 1989), and with regard to assigning a 'real' status to institutions (Lawson 1997), which I connect with an externalist concept of distributed cognition.

My approach is closely connected to most recent attempts at establishing a 'social neuroeconomics', which recognizes the centrality of neuroeconomics, which I also do, but argues that neuroeconomics remains incomplete if the patterns emerging from interactions between neuronally constituted systems are neglected (e.g. Oullier, Kirman and Kelso 2008). This lit-

erature must be seen in the context of the vast field of the philosophy of mind and the related debates over reductionism and supervenience, which is so far neglected in neuroeconomics. My approach is especially informed by the debate over externalism, both in philosophy and cognitive sciences (for overview, see Wilson 2004 and Schantz 2004).

As I will show in the next section, there are different ways to build bridges between my argument and the standard economic model. I draw on two connections, in particular. One is the discussion about preferences, and the possible need to introduce group-level preferences, which involve an identification between the individual and a group, with a shift of the locus of preferences to the collective level (e.g. Sugden's 2000 theory of 'team preferences'). The other is game theory, especially as applied on institutions, and in the specific context of epistemic game theory (Brandenburger 2007). Game theory in its current form is mentalistic and builds on an inferential concept of knowledge processing. In the distributed cognition framework, knowledge is seen as embodied in material structures, which, as we shall see, has important implications how the identities of players in interactions are conceived. This relates directly with the concept of 'types' in game theory. Many paradoxes in game theory result from the exclusive reliance on inferential knowledge and evoporate in a distributed cognition framework in which action is not triggered by inferences from knowledge, but knowledge inheres physical structures which cause action.

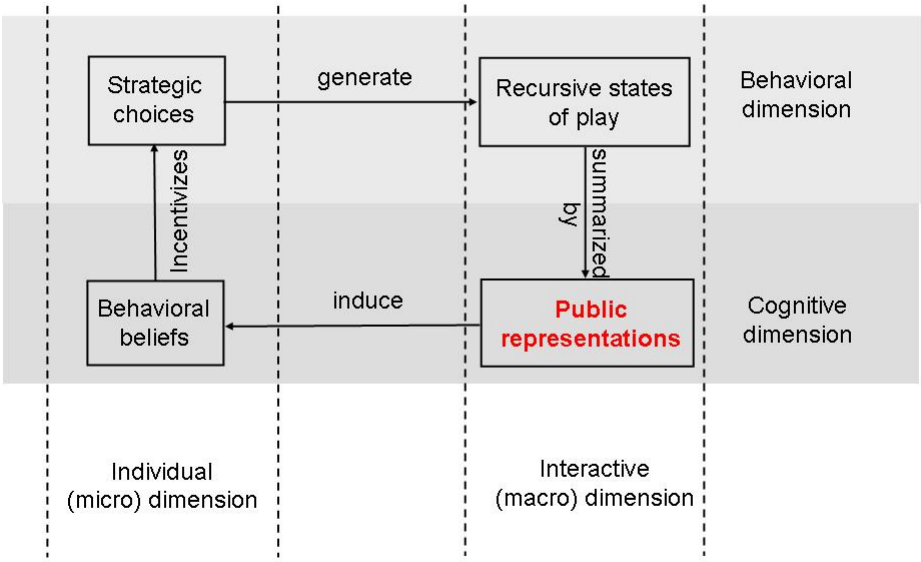
The paper starts with the discussion of Aoki's game theoretic conception of institutions, thus connecting my argument with established approaches in economics. I connect his analysis of 'public representations' in games with an externalist approach to the identity of players. In section 3 I show how this substantive view on institutions relates with Searle's theory of institutions, and I offer a social neuroeconomics explication of his notion of collective intentionality, which takes imitation as a central phenomenon. In section 4, I draw on the neuronal teory of metaphor in analyzing Searle's status function and show that performing institutions relates with distributed somatic markers in a population of rule-following agents. In section 5, I sketch two empirical case studies on money and status orders in competitive markets to show how neuronal states and institutions relate causally with each other. Section 6 concludes with a reformulation of the Aoki model.

2 Distributed cognition and the theory of institutions

The distributed cognition (also: extended cognition) approach claims that human cognitive capacities are externalized in an essential way (Hutchins 1995, Sterelny 2004, Clark 2007; for a critical assessment, see Sprevak 2009). The media of externalization are manifold, for example, memory techniques, tools and devices leveraging human movements, or other individuals with whom regularized interactions takes place. On a more fundamental level, we can say that human language is a prime medium of externalization, as the meanings of language, following Wittgenstein's (1958) classic argument, are necessarily bound to shared patterns of language use in communities of speakers. Thus, using a word relies on knowledge about proper use which can only be assessed in the context of uses by others.

This insight allows to establish a direct connection with certain theoretical conceptions in economics. For ease of argument, I pick out one specific example which is already congenial to my thinking. This is Aoki's game theoretic conception of institutions (Aoki 2007, 2010, extending on Aoki 2001). Aoki proposes a dynamic framework which is summarized in fig. 1, and which he refers to as a 'theory of substantive institutions'. A substantive institution is more than just an emergent equilibrium and coordination of mental states of individuals, but attains the status of 'reality' in the ontological sense, thus transcending the purely inferential approach in standard game theory. The objective of this analysis is to grasp the complexity of the interaction between individual decisions and institutions. On the one hand, individual decisions are the drivers of social action, including the emergence of institutions (e.g. in social contract theories). On the other hand, institutions are constraints on individual decisions (e.g. in North's 1990 approach). This ambivalence is also reflected in different game-theoretic conceptualizations of institutions, where institutions can be both emergent equilibria in games, and the rules of the game.

Figure 1: Aoki's circular-causality approach to substantive institutions



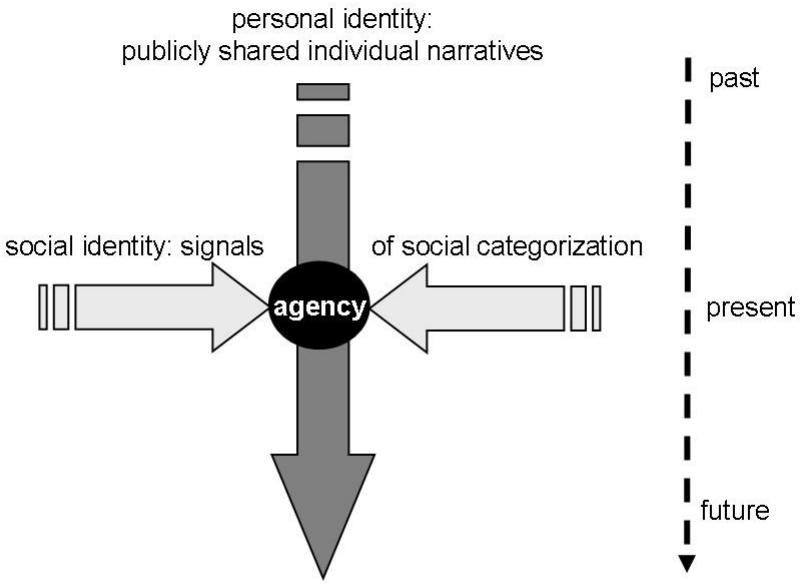
In order to analyze institutions, Aoki proposes to distinguish between the individual and the aggregate level, and the behavioral and the cognitive dimension. Standard game theoretic approaches to institutions put the strategic choices at the center. Choices generate states of the game, which are recursive, if equilibria. The choices themselves are generated by certain beliefs, which are summarized in the given set of common knowledge about the structure of the game, payoffs etc. So, beliefs incentivize choices, and choices generate states of playing the game. Now, Aoki introduces a new theoretical conception which opens up the black box of common knowledge. He argues that the states of the play are summarized in certain public

representations, which are perceived by all players, and which induce their individual beliefs. Those summary representations do not reflect full and perfect information about the state of the game, but they evolve in a way such that the equilibrium state of the game is reproduced, until major disruptions of the implied states of knowledge occur.

Interestingly, Aoki assigns the public representations to the cognitive dimension of his model. This vindicates an interpretation in the more general distributed cognition framework. In other words, I claim that Aoki's model is a distributed cognition model of institutions. The representations of the states of the game are not simply individual and inner mental states, but rely essentially on external means of representation. These public representations, however, do not need to be interpreted in a same way by the different parties involved, and they do not simply represent inner mental states, because they are independent triggers of such states. We can even say that the individual interpretations are irrelevant in equilibrium, because what only counts is whether the implied behavior results into recurrent states of play which are sustainable. In other words, a shared and interactive pattern of interactions and public representations can co-exist with many different internal mental states or interpretations (this differs fundamentally from North's 'shared mental models' approach, see Denzau and North 1994, North 2005). They become relevant in the moment when equilibria collapse, and new equilibria need to be established. This is the time of institutional innovation, in which, however, we cannot speak of institutions at all. Once institutions are settled, public representations are back in their pivotal role of anchoring the entire structure.

I propose to relate this view with an argument that has been made recently by Don Ross (2005, 2007a,c), building on work by Ken Binmore (1994). Ross argues that all games need to be analyzed in a three-level structure. One is the level of the strategic interaction in a particular setting, which is the bread and butter of game theoretic analysis. The other, foundational, is the level on which certain fundamental agent characteristics are determined, and which corresponds to the biological setting, i.e. certain biological features of human behavior, cognitive capacities and so forth. This is a 'game of life' in turn (cf. Binmore 1994), because those features evolve in more generic and long-run patterns of intra-species and inter-species interactions. Now, Ross argues that there is a third, intermediate level, on which the identities of players are determined. This level is essential in human social interaction because of the fact of language. Language is a strong device of cheating, as players can suggest any possible information about themselves as they wish, only limited by the inferential capacities of the counterparties, which analyze their context and the implications for incentives (which is in focus in the 'cheap talk' literature). However, at the same time language is the only medium in which reflections about the game can take place, and in which many strategies such as announcing commitments can be formulated and implemented. Therefore, language becomes the central medium through which player's identities are fixed (which would correspond to the concept of 'types' in epistemic game theory). This is possible because of the historicity of language. That means, in real world circumstances, where individuals play recurrent, interconnected and embedded games, individual identity emerges from shared narratives about the history of interactions. These narratives impose certain constraints on linguistic arbitrariness of identities, and ultimately fix identities.

Figure 2: The externalist approach to identity and agency



So, I argue that this notion of identity is an integral part of the summary public representations in Aoki's model. Identities emerge as public facts, and constrain the range of possible outcomes of games, thus making them sustainable over the longer run. So, the individual agent that enters institutionalized interactions with others carries an identity which is external in an essential way. On the one hand, there is a set of public indicators of identity, which is conventionally called the 'social identity' (which relates to Akerlof and Kranton 2000). On the other hand, there is the narrative of the individual history, which is also public, with different reach and scope, and which is central also for individual projections of future states emerging out of that developmental trajectory (compare the related argument by Davis 2007, 2008). Identities trigger certain choices, such that, to a certain degree, one could even blank the 'beliefs' part of the Aoki diagram, because the identities, in the average of a population sharing an identity, correlate with action patterns directly, even with diverse beliefs in the sense of inner mental states (for example, the identity in a caste system generates certain behavioral patterns which stabilize the caste system, even if individual beliefs about the self may not fully correspond to that).

This externalist account of identity reflects recent developments in different fields of social science. One strand of thought builds on the empirical research on agency, which shows that human individual will is very often and systematically guided by determinants which are not accessible to conscious reflection and which connect self-perceived agency with the external environment (for a conceptual framework, see Davies 2007). This research mainly builds on the neurosciences. Interestingly, it concurs with an entirely independent strand of thought which has been developed in the context of actor-network theory, and which is also invoked

in theories about performativity (Latour 1995, Callon 2008). This is to see agency as an 'agencement' which emerges from networks of interaction, involving both other individuals and physical facts, especially artefacts. Both lines of thinking end up in a conception of 'distributed agency', in which individual agency supervenes on patterns of interactions between internal facts, which I conceive as neuronal facts, in a naturalistic framework, and external facts. These patterns of interaction can be further analyzed, with the concept of 'imitation' at its core.

3 Rule following and imitation: Towards a social neuroeconomics

My reconstruction of the Aoki model already contains defining features of a distributed cognition model. In the distributed agency conception, the observed behavior of agents cannot be simply seen as an expression of inner mental states, but as flowing out of the internal mechanisms that link public representations and actions. I will now throw a closer look at those mechanisms, aiming at a first definition of performativity. I claim that the individuals in Aoki's model conduct performative acts when playing the games they are in.

In order to achieve that, I need to mobilize further intellectual support by another influential scholar, John Searle. John Searle (1995, 2005) has proposed a theory of institutions which extends on the following essential ideas. He argues that all institutions are built on linguistically mediated transfers of meaning (which he calls a 'status function'), that result into the assignment of certain powers to certain individuals. Language is central for two reasons. One is that the transfer of meaning operates via language; the other is that language is the medium of collective intentionality, for its very social nature, already alluded to above. Collective intentionality emerges from the linguistic process and implies that the intention to follow an institution is shared by the relevant group in the sense that the individual intention reflects the collective intention. Further, Searle proposes a direct neuronal mechanism for this phenomenon of following an institution or a rule in general. Rule following is not conceived as a conscious or rational act, but is a disposition to act which is rooted in neuronal structures.

This concept of a neuronally anchored disposition is a central building block for a theory of performativity as a complement of Aoki's theory of institutions. This is because it makes implicit what underlies the notion of 'inducement' that links up beliefs and public representations (see fig. 1). A disposition is a structural possibility to trigger a certain action when meeting certain environmental cues, such that for the fully-fledged action pattern to emerge, neither in the inner states nor in the external environment a full representation of the reasons for actions need to exist. For example, if a basketball player takes a certain action that corresponds with the rules of the game, it is neither necessary to have a full internal description of the rules which is explicitly followed by the player, nor to have a full description of those rules externally. Rules are embodied in signs that have a certain meaning (such as lines demarcating the playing field), and in the actions that are recurrently produced during the game, resulting in patterns that are followed by all players; the meaning of signs are these patterns, in the Wittgensteinian view.

The latter point needs to be emphasized. Rule following is a behavioral disposition that is shared by almost all members of a population and which is activated by imitation as the foremost causal mechanism leading to converging and matching action patterns in a population of agents. This insight has been especially emphasized by recent research in social neuroeconomics which focuses on the mechanisms through which human actions are coordinated between individuals by following actions of others, beginning with the coordination of bodily movements and ending in more complex mechanisms of cognitively mediated copying (Oullier et al. 2008, 2009, Oullier and Basso 2010a, b). In this context, recent research in the cognitive sciences has provided strong empirical support for a theory of co-action, which recognizes that the human self-perception of agency is very often systematically misleading and hides the actual mechanisms of copying and imitating the behavior of others, mediated by a large range of signals and cues (Wegner and Sparrow 2007). This results into the surprising empirical observation that the brain triggers action in advance of the consciously perceived perception of taking the decision to act. This offers an exact and empirically tracable approach to collective intentionality as posited by Searle. Individual intentionality is embedded into collective intentionality emerging from co-action.

This perspective is vindicated by current neuroscience models of imitation which go back on much earlier thinking, especially to Vygotsky (Moll and Tomasello 2007). In modern conceptions of the 'social brain' (Frith 2007), and in current attempts at explaining the specifically human capacities for culture, imitation stays at the center of attention. Imitation underlies the mechanisms of human social learning in networks of interactions (Bentley and Shennan 2003, Richerson and Boyd 2005), which is undergirded by neuronal mechanisms and brain structures which seem to be specific to humans (Tomasello 2008, Tomasello et al. 2005). This is because imitation is in fact a very complex cognitive process, because it involves the reconstruction and de-contextualization of observed actions and imputed intentions of others. In these models, the perceived comparison between observed own actions and others' actions drives the process of internalizing certain behavioral patterns in the sense of building up the capacities which underly agency, thus actually reversing the causal flow in the ontogeny of agency: Imputed intentionality of others (the Dennettian 'intentional stance') is projected back on perceiving and conceptualizing Ego's intentionality and agency. That is, individual learning of certain patterns exclusively relies on external phenomena, and the inner mechanisms are merely enabling structures. Especially, one's own actions are also perceived external phenomena, which only in the course of ontogeny transform into perceived inner states, especially intentions (in neurosciences, this is the link between motor output and sensory inputs, for a survey, see Fogassi 2011). This process is undergirded by specific neuronal structures, especially the so-called mirror neurons and the specifically human capacity of 'mentalizing' (Frith and Frith 2003, Frith and Singer 2008). The resulting mechanism has been put into one canonical model by Hurley (2008) (see fig. 3).

The essential elements of this model are neuronal structures that enable an organism to observe Alter's actions, Ego's actions and to compare them in an evolving system of categorization of sensory inputs. This system is anchored in evolved value functions which assign value to observed behavioral outputs. The system has the capacity to internalize actions as a result of learning (output inhibition), so that more complex imitation also need not involve direct action.

This model can be reframed as a 'social' model in fig. 4. We visualize two individuals, who manifest the basic feedback loops of imitation, in which own behavioral output is related with behavioral outputs of Alter via comparators. In a distributed cognition frame, the outputs obtain the status of signs. That means, for example, that outputs correlate with stable physical patterns in the environment of the agents, such as repetitive actions, or certain symbolic features such as ways of dressing, or with the involvement of certain physical items such as tools and devices. These physical patterns are activated by the agents' actions. Their effect is twofold. Firstly, the physical patterns activate short-cut feedback loops in which agents continuously monitor their own actions relative to those patterns; secondly, they involve with physical patterns that are generated by Alter.

Fig. 3: Neuronal structure of imitation (modified after Hurley 2008)

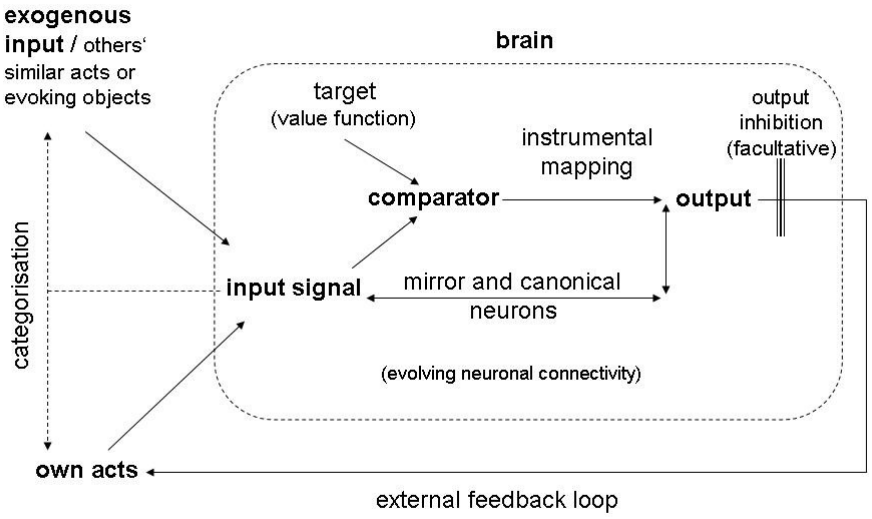
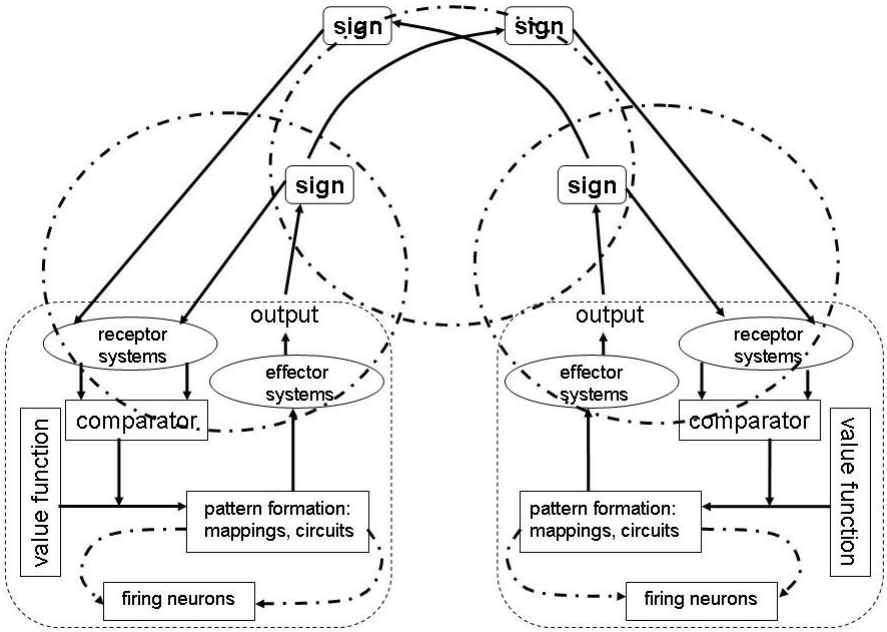


Figure 4: Distributed cognition and neuronal structure



So, I propose that Searle's notion of collective intentionally is essentially describing the outcome of the fundamental process of imitation, in the sense of collective intentionality supervening on the ongoing dynamic processes of imitation. Imitation is a centerpiece of the distributed cognition approach, as it establishes the causal connection between external facts and inner states. In this very specific sense, collective intentionality is a model of distributed cognition. That is, the notion does not involve any sort of 'group mind' (compare Wilson 2004), but refers to a regularized patterns of causal interaction between external facts and internal neuronal states. Collective intentionality can be empirically determined in the co-action phenomenon.

To complete this framework, I propose to further generalize this hypothesis with reference to the theory of somatic markers, which I will then invoke in the next section to complete the theory of performativity. In the Hurley model, the value functions play a pivotal role, because they drive the evolution of patterns. Value functions can be genetically stored, or emerge from learning. The emergent patterns can be identified with 'somatic markers' in the sense of Damasio and collaborators (Damasio 1995, Bechara and Damasio 2005, Reimann and Bechara 2010). A somatic marker is a particular state of the neuronal system, possibly also involving circuits which connect brain and body, and which triggers certain behavioral outputs, or 'choices' in economic parlance, following primary and secondary inputs, with the latter emerging from internal neurocognitive processes such as classifications or associations. This larger emergent pattern can also be called an 'emotion' (sharply different from subjectively perceived 'feeling'). So, we can say that 'following a rule' flows out from a disposition which is physically embodied in sets of somatic markers, and the resulting actions are triggered and accompanied by emotional states. These states operate as a memory for the organism and link past and present actions.

In spite of being internal organismic (but not 'mental') states, they can be shared among individuals, because the triggers involve external facts, which are public, and which operate as signs. The meanings of signs are not mental facts, but are the emerging regularities in actions, which are public facts in turn, and which converge through the ongoing process of imitation. In this sense, institutions build on shared emotions (compare Pham 2007 on the ecological rationality of emotions).

4 Performativity and metaphors

I will now finalize the definition of the concept of performativity. My claim is that rule-following in terms of convergent action patterns is 'performing' an institution. In a nutshell, this means so far that individual behavioral regularities ('habits') correspond to larger patterns of behavior in a population of agents. This has to build on external cues, or signs. I now argue that these signs result from the fundamental process of metaphors, which is enabled by the nature of the external facts being signs relative to the neurocognitive systems.

Searle uses the notion of 'status function' to refer to this process. In his approach, this means to treat a pre-existing fact as something else, depending on context. So, for example, in a certain society a piece of paper is treated as money, or an individual is treated as a judge. This is a transfer of meaning, in the first place, which is reflected in a fundamental shift of action patterns that can be observed when watching people either using just a piece of paper or using it 'as money'. In the cognitive sciences, we can approach this transfer of meaning in many different ways. I distinguish between purely cognitive approaches and neuroscientific ones. The first fit into a generalized connectionist framework (see Strauss and Quinn 1997) and conceive of metaphors as one example of the more general phenomenon of conceptual blending (Fauconnier and Turner 2002, 2008). Conceptual blending happens, if two concepts from different domains are put into a relation to each other and projected into a new domain of application, thus creating a new meaning. As such, conceptual blending underlies all semantic creativity in human language, such as the coining of new words by merging them into new words.

However, I argue that the mechanisms underlying Searle's notion of rule-following have to be more specific. This requires the transition to Lakoff's (2008) neuronal theory of metaphor. Lakoff's theory is also connectionist, yet not only on the semantic level, but also and primarily on the neuronal level. That means, transfers of meaning directly reflect certain neuronal processes, such as mappings, circuits and other forms of projections. We do not need to go into the details of this approach here. The central hypothesis, in my reception, is that in a metaphor, the conceptual blend is more directly based on a shift in neuronal connectivity in a way that somatic markers are connected with different signs, so that a rewiring takes place, with the same somatic marker connecting with two different signs involved in behavioral regularities. This is what Searle, in his approach, refers to as 'brute facts'.

Take, for example, the emergence of certain social institutions that relate with violence (for a general naturalistic reconstruction of early human symbols, see Burkert 1996). The use of symbols for physical prowess, application of physical force, and the will to apply it, involves a shifting connectivity of somatic markers in the sense that the original connectivity relates with the specific experiences of physical violence, and possibly activates related memories, whereas after the shift the symbol activates the somatic marker (see Bechara and Damasio 2005 on the distinction between primary and secondary inducers involving different parts of the brain, in particular the amygdala and the ventromedial prefrontal cortex, respectively). So, the metaphor that is activated in the use of the symbol actually means that the symbol 'is' what it is seen as being representing. This applies for all kinds of metaphors, as has been elucidated in Lakoff's original theory, even more abstract ones. For example, treating time as movement in space would actually activate neuronal connectivities which are causally enmeshed with movements, so that, to a certain extent, time 'is' movement in space.

This implies that in a metaphor, there is not simply a conceptual blending in a semantic space, but also more strictly a transition into a real equality between the source and the target domain in terms of the underlying neuronal responses. This is what actually underlies the Searle notion of a disposition that guides institutionalized behavior, and offers a neuroscience explanation of the link between status function and disposition.

So, we end up with the following definition of performativity. An action is performative, if it involves a conceptual blend across different domains, such that the resulting action is linked with particular somatic markers which reflect a sustainable disposition to this action, and such that the action correlates with the regular occurrence of external facts, which operate as signs triggering the somatic markers. As a result, following an institution does not involve an intention to follow, in the sense of a mental fact, but results from a closed causal feedback loop between signs, inner neuronal states, and actions that are signs in turn. As the signs are shared in a population of agents, these patterns reflect collective intentionality supervening on the underlying causal patterns.

5 Two case studies of performativity

We have now developed a naturalistic theory of 'following an institution', which I define as a performative act. In this section, I will analyze two case studies of performativity to give empirical support to my argument. The first is the example of money, the second is the example of brands and status. In both cases, it is possible to show how a certain regularity in the economic process is anchored in specific neuronal mechanisms, which in turn have consequences for the aggregate behavioral patterns connected with certain external facts, here, artefacts, and which result into real consequences for the economic process which, within certain ranges of variations, stabilizes an established pattern of interaction through time. In the first example, this is the recognition of a certain currency as money, in the second, this is the reproduction of a status order in competitive markets. In both cases, performative action means to make something 'real' which does not have this property ab ovo.

5.1 Performing money

Money play a central role in economic theory. The standard conception assigns no intrinsic value to money, in the sense of the dictum 'money is a veil'. This assumption stays in stark contradiction with the approach in experimental economics and neuroeconomics, where money is commonly used as a simple primary reinforcer (Camerer et al. 2005, Knutson and Wimmer 2007, Phelps 2009). Indeed, money triggers the same reward circuits in the brain as other primary reinforcers, such as watching beautiful faces or viewing delicious food. In economics, there are different responses to this observation. One eschews its relevance, arguing that this just reflects the indirect utility of the goods money can buy (Harrison 2008). The other is to accept the fact that money proper manifests utility. This latter position attains much validity beyond the scope of neuroeconomics. There are many results in psychological research which reveal special features of money, as compared to other goods. Lea and Webley (2005) have proposed what they call the 'tool and the drug theory of money'. They argue that in real-world uses of money, both aspects intermingle, and may be dominant dependent on context. The tool aspect matches with the standard economic conception. The drug aspect comes up when analyzing the empirical research about the role of money as a cognitive drug. Lea and Webley define cognitive drugs as signs that trigger certain underlying biological functions without actually fulfilling them. For example, gambling can be a cognitive drug, which might relate with underlying behavior pattern of hunters pursiuing a goal under complex contingencies. Indeed, the neuroscientific litearure on gambling (Clark 2010) shows that the addictive effects of gambling relate with the dopaminergic circuits in the human brain, which guide reward expectations and concomitant behavior. Raised dopaminergic activity is a source of satisfaction on its own, such that the mere pursuit of a goal, in spite of recurrent failures, drives actions.

Now, in case of money similar observations can be made with relation to the activation of dopaminergic circuits. This implies that the pursuit of money can be decoupled from the indirect gains that accrue from using the money. In our current context, we can restate the standard economic argument in the following way. Money is not just a tool which can be used to buy other goods, but it turns into a metaphor for these other goods. This metaphorical status is very different from the mere use as a tool, because it is undergirded by the activation of the same reward circuits as in case of all other goods. Money does not simple indicate utility, it represents it metaphorically à la Lakoff.

One of the strongest results confirming this view is recent research on money illusion, which synthesizes psychological and neuroscience approaches. Money illusion is a fact established by numerous psychological experiments (Shafir et al. 1997). Recently, money illusion could be shown to relate with distinctive patterns of brain activation (Weber et al. 2009). Test persons are not able to distinguish properly between real and nominal values of money, and they show much higher satisfaction with rewards that are higher in nominal value, even if the underlying real value is the same as in rewards with lower nominal value, because of different and transparent price levels.

This distinction shows up in the differential activation of the reward processing areas in the brain. This result clearly demonstrates that money is close to a primary reinforcer. Lea and Webley summarize a whole lot of empirical observations that underpin this view. In our current context, this implies that money as an institution involves a fundamental shift of neuronal response patterns as compared to the physical entity that represents money. The institution of money is anchored in somatic markers that can be discerned by means of neuroeconomic methods.

5.2 Performing brands

Many markets manifest the distinctive property of a hierarchical order of status. This is true for many consumer goods markets, but also, for example, for financial markets. At the one end of the hierarchy, there are a few companies which have a particularly strong reputation and dominate the market as leaders and trend setters, and on the other hand there are producers with no independent brand identity, catering for the needs of low-end and low-price market segments. These hierarchies are reflected in many physical characteristics of the business process, such as the location of the headquarters, the organization of the distribution process, and, of course, the products themselves. There is also a whole gamut of signals that communicate the hierarchical position, which is observeable, for example, in the distinctive uses of advertising.

Joel Podolny (1993, 2005) has presented a theory of status in market competition which argues that status cannot be simply explained by standard economic theories, but has to be assigned an independent theoretical role. This is tantamount to proposing an institutional theory of status, in the sense of emergent informal institutionalization.

The standard explanation goes back to information economics and signaling theories. Status would appear to be a solution to the problem of how to communicate true quality to consumers when facing certain fundamental limits to credible communication. The central argument is that a high-quality producer will use signals that are costly to the high quality producer, but can only be produced at a higher marginal cost by low-quality producers. This prevents the low-quality producer to imitate the high-quality producer, or even to cheat over the quality signals. So, the market hierarchy results to be a separating equilibrium with truthful signalling of quality.

However, Podolny argues that these arguments do not suffice to explain the observations. One essential part of the phenomenon is lacking. This is that status does not only have effects on the distribution of information about a given level of quality, but also changes the level of accessible quality. The reason is that all high status producers can access all inputs at a lower comparative cost in the sense that they can produce high quality with lower relative costs than any other competitor (for example, suppliers are keen to keep the relation with them, and so accept lower prices). This results into an objective barrier to entry for non-status producers, even if they were also able to produce the high quality good. They cannot do it at the same cost. However, the high status producer could produce any level of quality with lower relative cost. But this would imply that its own behavior would undermine the perceived status hierar-

chy. Thus, the high status producer will avoid actions that undermines its position, thus effectively supporting the segmentation of the market.

Podolny's theory can be interpreted as providing a specific example for performative actions. High status is a performative action because it contributes to the conditions of its own actualization (which is an example of the so-called Matthew effect). Further, status is a positional good, so that signals can only be used by a limited number of users. In this view, the status hierarchy on the market is no longer endogenous to market actions, but becomes an exogenous determinant of actions, i.e. is an institution. Status is 'real', in the first place, because there are real differences in quality, and because the barriers to entry on both the high and the low level segment of the market are sustained endogenously by both the properties of the production process (high quality can be produced at the lowest relative cost by the high status producer) and the status signs (which can only be communicated credibly if the high status producer does not exploit its cost advantages in the low status market segment).

This performative action is also anchored in neuronal patterns which directly undergird the hierarchy of status. One of the celebrated results of neuroeconomic applications in marketing is the discovery that brands elicit other neuronal responses that non-branded goods of even similar quality. The seminal study is McClure et al. (2004) who compared the effects of the Coke and Pepsi brands among each other and with non-branded goods. They showed that brands activate different parts of the brain than non-branded tastes. In the latter case, the preferences of the test persons were reflected in differential activity in the ventromedial prefrontal cortex. In the former case, more complex patters emerged which involved the Hippocampus, the Dorsolateral prefrontal cortex and the midbrain. The VMPFC activation reflects the activation of the standard reward systems in the brain, so sensory inputs (tastes) activate reward expectations, especially in the case when test persons are presented with anonymized drinks and recognize the taste differences of their preferred drinks. Brand knowledge changed this pattern substantially, especially with Coke having a direct effect also on the subjectively experienced taste differences. Interestingly, this brand effect was only strong for Coke, but not for Pepsi. Only Coke elicited a very strong shift of brain activity to the aforementioned areas. McClure et al. hypothesize that this results from the activation of specific memories, especially involving affective bias.

This result has been confirmed in other studies and reveals a 'winner takes all' effect in brand loyality (overview in Plassmann et al. 2007, Hubert and Kenning 2008). There is a clear difference between individually favoured brands and all other brands in terms of brain activity. In case of standard brands, the brain activates those parts which are typically related with rational decision making, reward expectations, and choice. In case of the favoured brand, activities prevail which are related with emotionally grounded memories. As a hypothesis, one can therefore say that favoured brands connect causally with somatic markers in the sense of Damasio.

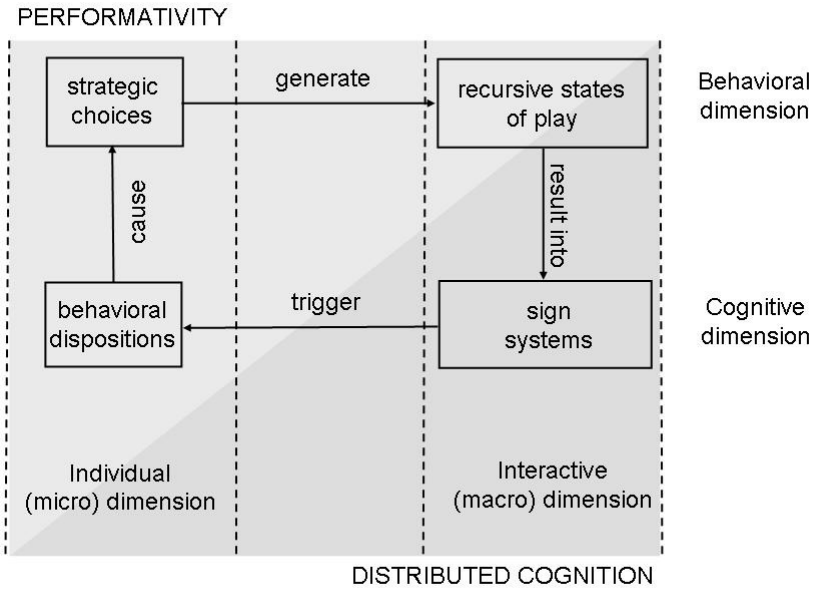
Therefore, I argue that the status hierarchy in markets is causally connected with distributed somatic markers in a population of consumers. The neuroeconomic research explains why the status hierarchy is exogenous to the market process, as long as the branded producers orient their activities to maintaining the competitve edge. Changes of the status hierarchy are major market disruptions. One factor is that they would require substantial changes in the distributed pattern of consumer behavior which is rooted in neuronal mechanisms.

So, we can conceive of brands and the corresponding status hierarchies on markets as outcomes of performative actions. Performativity results from the fact that the brand order is causally connected with two processes that have immediate physical consequences. One is that the status hierarchy is anchored in distributed somatic markers on the consumer side, the other is the effect on the relative costs of producing a given quality of goods.

6 Conclusion

In the previous pages I have developd a naturalistic conception of rule following which posits, in most general terms, that institutions are rooted in emotional states. This is a perspective which stands in flat contradiction with most rational choice approaches to institutions, such as contractarianism. Further, I argue that emotions as inner states of neuronal systems are causally connected with external physical facts, which stand in a sign relation with the neuronal system. So, institutions depend essentially on those sign systems. This is the distributed cognition dimension of my approach, which is Hayekian in spirit.

Figure 5: Aoki's model, naturalized



In figure 5 I relate this position back to Aoki's model. The fundamental structure is maintained, but there are two fundamental changes. The line separating the behavioral and the cognitive dimension runs diagonal and therefore connects the individual and the aggregate dimension. This is because we now distinguish between performativity in the behavioral di-

mension and distributed cognition in the aggregate dimension. Performativity refers to the action patterns generated on the individual level, and which emerge from the feedback loops between individual neuronal states and the population level via the mechanism of imitation. Distributed cognition refers to the sign systems, which trigger individual actions, and which emerge in a population level dynamics, basically a diffusion dynamics driven by imitation. The sign systems attain causal force because they are causally connected with particular neuronal states.

The entire feedback circle is based on a naturalistic account of causation, which is the second difference to the original Aoki model. So, I have minor, but essential changes in wording, because I do not use terms which relate with intentionality and mental states, such as 'incentivizes'. Sign systems trigger the activation of dispositions, and dispositions cause choices, with the possibility of random variations and errors. Recursive states of play do not generate 'public representations', as the latter term suggests reference to mental states and represented facts, but they result causally into certain signs as physical facts.

I think that this view on rule following as performative action opens a new way how to integrate neuroeconomics with economics. The exclusive focus of neuroeconomics on choice in the microeconomic sense neglects the fact that almost all human behavior is guided by habits, norms and institutions. A naturalistic economic theory of human behavior has to take account of this fact and pays attention to the resulting complexity of systems which causally connect neuronal processes and the external world of other human beings, artefacts and other entities.

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