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Notes for the Knowledge/Value Workshop on:

FROM FACTS TO THE FUTURE: a first chapter in the history of financial models

Kevin R. Brine and Mary Poovey

I feel at a double disadvantage in writing these notes on Brine and Poovey's thoroughly fascinating, strikingly erudite chapter of their book-in-progress, *From Facts to the Future*, a study in the history of financial modeling – and of a great deal besides. This is because my command of technical economics is only marginally less slim than my command of economic history. Both, in sum, approach zero. As a result, much of my commentary on (or, more accurately, reaction to) this chapter is phrased in the interrogative voice, laced with the odd turn to the subjunctive.

Broadly-speaking, the chapter takes on one moment, one figure really, in the rise of financial modeling – and of its imbrication in the history of the modern fact, itself, of course, the subject of a magisterial volume by Poovey (1998). It focuses on the work of Irving Fisher, author of three highly influential texts, of which the first, *The Nature of Capital and Income* (1906), takes center stage here. Its significance, Brine and Poovey argue, was monumental: the new paradigm for economics announced in it constituted “an event in epistemological history, a shift in the most basic terms by which modern citizen-investors” – these days generally taken to be all but the most disposable, most immiserated of humans [JLC] – “know and make sense of the world” (p.19). Indeed, they continue, the implications of Fisher's theory of capital, according to which “income...belongs to the future [and] can never be known as it is in and of itself but only as it bears a relation to – as a ratio of – something else that has to come,” is “as staggering perhaps” as Einstein's theory of relativity (p.24). In sum, Brine and Poovey do not pull any punches in asserting the importance of their subject matter. Or the degree to which their subject matters to the modern history of ideas.

There is no need here to summarize the substance of their account: it is elegant, informative, lucid. For purposes of discussion, I should like to divide my interrogative thoughts on the chapter along two complementary lines. The first poses questions about the internal content of Fisher's new paradigm; the second, the manner of its exposition by Brine and Poovey. The relationship between the two – not entirely worked through, I confess – will, I hope, become clear toward the end.

The crux of Irving Fisher's epistemological break with the past – the financial models spawned by it, the pursuit of economics as a mathematically-based science entailed in it, and the like – lay in reconceptualizing capital and income; this by jettisoning the received idea that the former was based on land and labor, and by replacing it with the proposition, derived from corporate accounting, that it inhered in income, specifically, in the futurity of its expectation. This, in turn, raises a number of questions, at least to me, again, unembarrassed by any expert knowledge:

First, a logical one: If the value of capital has its basis purely in the expectation of income (i.e. in its futurity) – and not in a past of land, labor or anything else – wherein lies its own *fons et origo*? How is the inhabited present of capital produced, *ab initio*, out of an *expectation* of a future, if, in the first instance, that future has no prior materiality in the past? (Or, put another way, what *is* it in the present that has the capacity to produce the expectation of a future if that thing-in-the-present does not exist prior to the future it is meant to produce?) In short, there is a chicken-and-egg problem here that may be perfectly acceptable in theological discourse; in the analytics of economic history-as-science, however, it leaves a major (ontological?) question unanswered. It also leaves unanswered another problem: what are the theoretical and ideological stakes – apparently, and unsurprisingly, not addressed by Fisher himself – in reducing capital *sui generis* to a *financial* future, to the turning away from land, labor, and other forms of profit-yielding asset? To what kinds of economics, and economic pragmatics, does it conduce? What does that economics *exclude* from its purview? That Fisher's epistemological moment was more-or-less coterminous with a historical move *away*

from political economy toward contemporary economics seems hardly coincidental in this respect.

As this implies, second, one might ask whether Fisher's conception of capital-and-income did not merely posit and elaborate, as "economic science," the emerging ideological practices of the early 20<sup>th</sup> century corporation – whose double-entry accountancy, as "prototype for understanding the nature of all property relations," underlay much of Fisher's thinking (p.6)? This seems almost too gross a question to raise; it is much like suggesting that the obsession of Durkheimian social science with the question of order was owed largely to the anxieties of late 19<sup>th</sup> century liberal democracy with problems of labor discipline, delinquency, and political disorder. Still, it *does* seem worth interrogating the relationship between the emerging practices and ideological commitments of contemporary capitalism and the theoretical thinking – especially the ground-breaking theory-work – designed to make sense of, and valorize, its workings.

A third, and somewhat less crude problem lies, once again, in the matter of futurity. Brine and Poovey stress, for good reason, the salience of Fisher's anchoring of his theory of capital in the future expectation of income; they speak of this as its temporality. But what idea of "the future" is implicated here? Is it merely any time after now? The point of this question is not philosophical. It is simultaneously analytic and historical. After all, a striking thing about the rise of neoliberal capitalism has been its tendency to condense the future, to stress returns in the very short run (often manufactured out of abstractions that have no anchorage in anything beyond abstraction itself, and certainly not in capital-in-the-present), to short-change the history of things to come in the name of an urgent presentism; gone is the rather more leisurely idea of slow, steady accumulation, of the building of enterprises over generations, of a this-worldly progress toward the finality of better things. Which, it would seem, is why crises of reproduction, regulation, capital reserves, and long term investment in things that require it appear to be occurring with increasingly regularity. My point? That there

are many *different* futures, different temporalities, in the world of *homo economicus* – often in clashing polyphony with each other – and many different ways of conceptualizing them. To speak of it/them as an undifferentiated “future” is to reduce time (and “theory”) to a rather blunt instrument. And to reduce economics to a purely formal practice, an exquisite exercise in the production of complex mathematical models by means of which so many economists are so prone to mis-predicting...the future – to the extent that critiques of the discipline these days tend increasingly to complain of its divorce from any actually-existing reality (Comaroff 2010:527). Or am I wrong here, missing a more complex point? I dearly hope so. I would add here, too, that the psychological theory on which is based Fisher’s futurity-founded theory of capital-and-income is equally blunt. Or to be perfectly blunt, even more crude. Like rational choice models, it depends on a single order of motivation – the preference for “immediate consumption,” and its negative concomitant, “impatience” (p.13) – thus to reduce human behavior either to caricature or tautology. Again, a theory which posits that income is determined purely by the tacit transactional agreement of individuals to defer their instant enjoyment – and to hold that this is the root of the value of “real interest” – owes less to any serious understanding of modern psychology (which I *did* study!) than it does to an odd kind of metaphysical behaviorism.

The matter of futurity, in turn, is related, fourth, to the question of uncertainty, about which Fisher himself seems to have been somewhat uncertain (p.17). Indeed, he appears to have confessed to a circularity in his work without naming it as such. According to Brine and Poovey, Fisher believed that, in order to develop his theory, he had to defer the problem of risk and chance until he had “generate[d] the normative definitions” and the “foundational principles” of that theory (p.16); this in spite of his understanding that uncertainty is central to the future of everything – and that he did not have a principled means by which to take account of it. This is not surprising, of course, given Ulrich Beck’s (1992:29) observation that risk is terminally unknowable, at once both real and unreal. His, Fisher’s, solution lay in an appeal to existing probability models, a hardly original heuristic for the taming of chance, not a theory to account for

its nature. So the question: If Fisher's theory of capital-and-income relied for its foundational principle (futura) on holding in place – or less circumlocutory, on ignoring – uncertainty except by resort to a possibilistic instrument (based, note, on rates, ratios, and incidences from the *past!*), was it not founded on a contradiction? It is, after all, a theory whose objective is to reveal the workings of capital by reference to the future (the expectation of income), the essential feature of which, by Fisher's own admission, is uncertainty. But that uncertainty, far from being theorized, is "tamed" by a heuristic instrument ("the modern statistical application of probability") that projects what is to come, mechanically, on the basis of the history of what has been; in other words, on a vision of the future that is merely the past projected forward, a vision that nonetheless holds the future to be the key to the working of capital – whose material pastness is silenced by fiat – in the present. The theoretical/philosophical foundations of his modern financial model may indeed build on the modern fact – something that Brine and Poovey demonstrate cogently – but that fact, patently, hinges as well on the production of modern fictions, in which process probability models are a major instrument. I am, of course, being heavily ironic here. And, admittedly, I am probably missing something by seeing a contradiction at the core of Fisher's theory of capital. But I *am* trying to grasp it. There is, of course, another possibility: that the manner in which Fisher tames uncertainty, the manner in which he locates profit in the expectation of future income, *misses* an essential point of modern capital: that it has always accreted less through the rational acceptance of deferred enjoyment for a price (a.k.a. futurity/"interest") than through the production and mediation of *un*predictabilities, irrationalities, contradictions in its own construction of the relationship between past, present, and future, between its materialities and its immaterialities, between the theories fashioned to account for its workings and the practical capacities of *homo capitalis* to find ways of escaping their confines. Such musings, however, take me way *bo my vuurmaakplek*, as they say in South Africa, way above my fireplace.

There are other questions to be asked of Fisher's economic theology, but I shall rest here. Let me turn, now, to my interrogatives for Brine and Poovey. Some, self-

evidently, are implicit in the questions I have already posed of Fisher.

They all cluster around one large matter. In a nutshell, it is this:

Given that they offer an exposition of Fisher's theoretical economics and its philosophical basis with little critique of its internal logic, its essential assumptions, or its conceptual tools – which is fair enough in an economic history of this sort – to what kind of historiography do Brine and Poovey aspire here? By default, theirs appears to be a classic “big man” chronicle, an account of an epistemic moment and the charismatic individual – The Economist as Hero, to parody Carlyle (1842) – who caused it all happen. Well, is it? Along the way, we get glimpses that Fisher owed a great deal to other theorists of the period, as well as to the emergence of a set of corporate practices (especially double-entry bookkeeping, that essential ritual of Godly capitalism), of probability mathematics, and of the regime of the modern fact. Yet this “event in epistemological history” is told largely as though it were entirely of Fisher's own making, the yield of his singular genius. Which defers the larger question, the one I should like to pose now: What historical forces made Fisher and his theory-work to begin with? Or, at the very least, converged in him? To what extent did he give voice to those forces, to what extent was he the scribe of a particular moment in the history of capital itself, and to what extent did he exceed the currents of the age, currents obviously finding expression in a swelling tide of thinkers, of emergent cultural discourses, of new historicities? Is the treatment of his work here largely as the intellectual product of a heroic individual not itself an ideological choice, made wittingly or otherwise, a choice that has disciplined the way in which Fisher and his economics are described? And valorized?

In a similar vein, am I mistaken in detecting an isomorphism, an iconicity even, between Fisher's economics and the manner of its telling here? Note the focus in the latter on the *effects* of his theory-work, not, as I have just noted, on its past or the historical forces that produced it. All of which echoes, if indirectly, the ways in which Fisher himself privileged the futurity of capital (in income) over its present-or-pastness

(in other forms of value), economics over political economy, abstraction over materialities. In an even less direct way – and I may well be stretching matters here – the account echoes his treatment of uncertainty: along the way, it pays a great deal of attention to his own uncertainties in dealing with the problem, his own deferral, his own resort to heurism – only, toward the end, to echo his appeal to probabilistic mathematics in order to explain (away?) the production of certainty. Which returns us, unremarked, to the contradiction of which I spoke earlier.

There is nothing amiss in any of this, of course. But it does help us to make sense of the kind of story we are reading. For their own part, Brine and Poovey set out “simply to summarize Fisher’s contribution and to more fully explain why we consider his economic definitions to constitute an epistemological event, whose importance transcends the discipline in which he worked” (p.19). As I have said, they tell a very compelling, very persuasive story and offer us much more of a “simple summary” of Fisher’s theory-work. Whether or not they intend it as such, theirs is a fully fledged historiography of a critical moment in the history of economics – and social thought in general. Precisely because it is, it has given this *ingenue* an opportunity to play profitably at the game of posing questions that he could not pretend to answer. For which I offer my warm, and admiring, appreciation.

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