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Werner Reichmann

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Werner Reichmann*

The first third of the 20th century was an economically exciting time in the USA. Technical innovations and industrialization of society provided many chances for people to make money both on the financial market as well as in the real economy. Nevertheless, this kind of capitalism entailed new and unforeseen uncertainties for businessmen and investors. This historical economic situation is the point of departure for Walter A. Friedman’s history of the early economic forecasting in the USA. The first generation of forecasters “identified a business opportunity in the anxiety about economic future that pervaded the early twentieth century.” (3) In his book, Friedman aims at describing this first generation of economic forecasters by comparing their biographies.

Walter A. Friedman’s *Fortune Tellers* is a great book. There are at least three reasons that make it worth reading. First, Friedman does not simply tell the forecasters’ biographies but links them to their certain understanding of the economy and to their conceptualization of science as a whole. Second, Friedman connects the biographies to each other and to the forecasters’ institutional settings. Thus, he produces a comprehensive picture of the US-American forecasting scene in the early 20th century. And third, the sum of the biographies brings to light the main conflict lines between forecasters, policy makers, and businessmen. Surprisingly, these conflict lines are still the same even about 100 years later. Thus, *Fortune Tellers* is a felicitous mixture of (sometimes amusing) biographical details, economic history, and history of economics.

The first three chapters are dedicated to Roger Babson, Irving Fisher, and James Moody. Chapter four discusses the *Harvard Economic Service* with special emphasis on Warren Persons and Charles J. Bullock. Chapter five focuses on Wesley C. Mitchell and Herbert Hoover’s forecasting activities in the Department of Commerce. These cases were chosen by Friedman because they are still significant in

*University of Konstanz, Werner.Reichmann@uni-konstanz.de
different regards: Babson’s main merit was to form the public figure of the forecaster, John Moody’s rating agency is still one of the world’s most significant, and Fisher, Persons, and Mitchell are renowned economists whose influence in economic theory and economic research is widely acknowledged. Furthermore, a short chapter shows a gallery of the visualizations and figures of the economy published by early economic forecasters.

Friedman describes the panic of 1907 as a marker for many who were engaged with economic statistics. It also inspired Roger Babson, who was in business in providing information about bonds and the corporations that emitted them (15-17), to not only analyze data about the past but also to find a way to investigate the future. Babson wanted businessmen to “act upon facts and figures rather than guesswork and hunch” (37) and that they should be able to widen their scope and get information about other geographic regions and branches. In 1908 he started publishing the Babson’s Report that included forecasts (22).

Babson had in mind something of a macroeconomy (22). He created the category of business activity that can be compared with what is today called output. The innovation was that he did not only document a single company’s activities but compiled a variable that indicated the activities of a whole economy. He never made transparent how he exactly compiled the data and the indices and his “forecasting method was a combination of science and scientism” (30). He was inspired by meteorological methods and introduced the metaphor of a business-barometer to inform about the economic “weather” (31). Babson was convinced that past patterns would repeat in the future (27) and in a cyclical development of business activities (22). There was a law underlying business cycles, Babson thought, and that he had just to discover it. (24-27)

As unclear as Babson’s methods were as successful he was in selling his forecasts to businessmen. He was a demanded public speaker (32-33) and a “market guru” (33). During World War I Babson worked for the US government in a propaganda department that tried to make good mood for the war, mobilization, and the government’s labor program (34-36). According to Friedman, the skills learned there were useful to disseminate his publications all over the country: he created the public figure of the forecaster.

As the only economic forecasters of his time, Babson predicted the October 1929 crash (43-44) and, as a result, his reputation increased and he became a “celebrity” (46). This did not change even though he did not foresee the following decade of economic depression. Babson was a kind of eccentric guy—but with a very good nose for making a fortune.

A completely different approach to economic forecasting was developed by Yale professor Irving Fisher at the same time, who is Friedman’s second historical case. He brought together mathematics
and economics and the main variable in his concept was money. Economic booms and busts are driven by changes in price levels, especially those of interest rates. They are the links between men and the future and express the actors’ expectations. To be able to observe prices he compiled an index that indicated a “general price movement” (74).

The main difference between Fisher’s approach and all the other forecasters of his time was that he used a mathematical model, the equation of exchange. This allowed him to forecast without data from the past. Fisher in general believed in the scientific method as a general universal way to think. He proposed to apply it wherever possible: in the health system, for immigration control, in eugenics, in the economy, etc. It is no wonder that Babson’s work was mere “pieties and pseudoscience” (67) for Fisher.

In 1921 Fisher became more public (74) and compiled economic forecasts that were easy to understand and sent them to newspapers. In contrast to many other forecasters of his time, he did not send reports to subscribers but sold his *Fisher Reports* to newspapers and reached a big audience (79). A year later he founded a business called “Index Number Institute” (75) that grew over the 1920s and (74) enabled Fisher to get into investment business himself.

The irony of Fisher’s life is, as Friedman points out, that he may have been the best economist of the group discussed in Friedman’s book. But he was the most unsuccessful forecaster—and investor. After the crash in October 1929, which he did not foresee, he lost all his money (82-83).

Irving Fisher earned high academic merits and is today known as one of the founding fathers of the monetarist approach within economics. He also founded the *Econometric Society* (79) together with Ragnar Frisch and Charles F. Roos. Most importantly, his work—also about forecasting—enabled economists a deep understanding of capitalist economies.

In contrast to Babson and Fisher, John Moody is described as a kind of micro-economist. In his world view, Friedman argues, the main driving forces of the economy were the decisions and expectations of the leading economic actors (87-88). Different to Babson, who collected data about the general *business activity* and to Fisher who assumed a causal relation between money and trade, Moody thought that the best predictions can be made by collecting data about single firms. For Moody economy was pure chaos without any underlying laws or mathematical relations (89). He thought that data and forecasts could bring order in this chaos.

Moody had a good start as he, in 1914, forecasted a boom during World War I that happened to turn out right (103-105). This helped him enormously to gain reputation and to grow his business that took...
the shape of a rating agency in 1914. He also became a public figure who provided expertise and wrote for many magazines (105-109).

Friedman describes several links between Moody and his competitors in the forecasting business of his time. His main competitors were the Standard Statistics Bureau, Poor’s Railroad Manual Company and the Fitch Publishing Company—companies that are still competing today. All of these companies collected and published data about firms and rated them to inform investors and to make the financial market more transparent (92-94, 96, 102). Irving Fisher also published in Moody’s magazines about his econometric model, the equation of exchange (98) and—not to the delight of Moody—Babson bought parts of Moody’s publishing imperium after the panic in 1907 (99).

The fourth part of Friedman’s book is about the work of the Harvard Economic Service (HES). It grew out of an academic group around Warren Persons and Charles J. Bullock (131). They argued that economic forecasting should be in the hands of academic scholars “dedicated to the pursuit of truth” (133). The academic rivalry to Irving Fisher was obvious, as Friedman emphasizes: Whereas Fisher modeled the economy, Persons was a statistician who collected and processed data. In Persons’ view the statistician was an “explorer” (134) who aims at deleting the “disturbances” out of the data, i.e. the secular and the seasonal trend.

At the center of HES’s forecast was the so called Harvard Economic Services ABC, a chart showing three lines indicating speculations (A), business (B), and money (C). The assumption was that there is a time lag between A, B, and C so that the change of one predicted the others (138). The Harvard chart became very famous and was imitated and adapted in many countries in the industrialized world. Furthermore, the HES was the first forecasting institute that saw forecasting a global business. Thus, Bullock tried to build international relations with varying success (149-150).

In the 1920s the HES grew fast and the Weekly Newsletter, published for businessmen, found many subscribers. Nevertheless, it was easier to criticize the HES than the other forecasters because by working scientifically, their methods and data were transparent to the readers (152-154). Friedman argues that the HES suffered from the hard critique formulated e.g. by Karl Karsten and Oskar Morgenstern and that the critique contributed to the decline of the HES in the late 1920s. In 1929 the HES was separated from Harvard University (15) and tried to survive as a company. Still, in 1935 when the market for economic forecasts was moribund the HES closed down.

The last historical case discussed by Friedman is a bit different from the others as Wesley Clair Mitchell and Herbert Hoover used a completely different institutional setting to produce and publish economic forecasts. They were skeptical about private forecasting firms as they depend on the client’s money and tend to say what clients
want to hear (184-5). Thus, from their point of view, the state as an independent instance should publish forecasts for everyone. When Hoover became secretary of the Department of Commerce he organized a Business Cycle Committee that compiled and published economic forecasts. Hoover aimed at stabilizing the world business and the financial markets and at reducing (but not eliminating) uncertainty (168-169). Neither Babson nor Moody, being “dubious financial gurus” (184), were invited in the Business Cycle Committee and felt locked out.

Mitchell, a Berkeley-trained professor at Columbia University, published the most comprehensive survey of business cycle theories even in 1911. He was aware that economics differs from the natural sciences and established a certain approach to forecast economic activities. Although history was a teacher for Mitchell, he denied fixed laws and a fixed symmetry between the past and the future. Thus, he mainly aimed to understand what business cycles are and how they function under different conditions. For Mitchell the business cycle was “not a fixed law but a working hypothesis” (186) that should be permanently proved anew. The more data is available the better is the chance to understand it—“but the process would not have an end point, only continuing observation.” (185) This inductive approach is in strong contrast to Fisher’s deductive mathematical model (174-5).

As Friedman points out, Hoover’s and Mitchell’s plan was to create stability and a well trained managers’ elite that was always equipped with newest and good information.

Today, Hoover is mostly remembered as an unsuccessful president during the Great Depression. Friedman nonetheless dignifies Hoover’s activities as a secretary of the Department of Commerce. Nevertheless, Hoover failed at least twofold: First, he wanted to stabilize business development by providing information about the economic future but couldn’t obviate the shock in 1929 and the Great Depression. Second, he wanted the state only to provide information to business actors to stabilize markets but argued to avoid direct state interventions. The New Deal doctrine pushed forward by his successor went in the opposite direction.

Friedman’s book shows many more links between the lives and the work of the forecasters than I can discuss within this review. On the biographical level, there are some noteworthy similarities between some of the forecasters. For example, both Babson and Fisher suffered from tuberculosis, both fathers and siblings died early, both were interested in producing maps, and believed in eugenics (51-52). More important for the history of economic forecasting, Friedman shows the process of professionalization of the forecasting business that can be traced by the different careers of Babson and Moody on the one hand and the scholarly and governmental forecasters on the other.
There is an interesting historical constant regarding the conflict lines between the forecasters discussed by Friedman and the forecasting institutions today. The questions are still the same: Is there symmetry between past patterns and present ones? Is it better to use a fixed model or should forecasts be induced from data? How transparent are forecasting methods? How should economic forecasting institutions be financed? What role should the state play in the forecasting branch? Is the economy always developing cyclically? The five forecasters discussed by Friedman answered these questions differently. Some of the answers seem bizarre today—however, I think the problems mentioned are still prevailing.

One question is still open: Are modern economic forecasters really like fortune tellers, as the book’s title suggests? The OED defines a fortune teller as “person who is supposedly able to predict a person’s future by palmistry, using a crystal ball, or similar methods”. It may be true that the forecaster’s “predictive accuracy was no more certain than a crystal ball” (5). Still, I think, Friedman shows in his book that the opposite is the case. In contrast to prophets, seers, and oracles, modern economic forecasters, including some of those discussed by Friedman, produced deep insights in business life and helped to deepening the understanding of the economy as a whole. They conceptualized the economy as an entity with its own rules, helped to discipline economic change and popularized economic knowledge by visualizing business activities. In this, they are ahead of the fortune tellers.