Philip Pilkington writes: The financial economist Fischer Black – a mathematics PhD and founder of the popular Black-Scholes model of options-pricing that is much used today. In 1986 Black published a paper entitled simple "Noise" that is well-nigh unreadable. One gets the sense that "noise" for Black is a sort of ontological category that disturbs his sense of reality. "Noise" for Black is the equivalent to what "Sin" is to Christians. Everything bad in the otherwise harmonious world can be attributed to this ontological category "noise". In this regard it is worth quoting from the abstract – which, it will be seen, is so poorly written as to be barely readable.

The effects of noise on the world, and on our view of the world, are profound… Noise in the form of expectations that need not follow rational rules causes inflation to be what it is… Most generally, noise makes it very difficult to test either practical or academic theories about the way that financial or economic markets work. We are forced to act largely in the dark.

Noise is not a passive effect for Black; it is an active entity – much like Sin for the Christians. In this sense, noise is not just a term or a concept used to denote a phenomenon for Black, it is not a metaphor; no, it is a really existing entity or thing. Noise, for Black, is thing-like.

Noise is what causes expectations to be irrational. It is what causes us not to act in line with the ideal that Black holds to be the normal outcome of the market. Noise here is a sort of ethical category – again, its overlap with that of Christian Sin should be obvious.

Noise accounts for our academic failures and the breakdown of our otherwise "correct" theories in face of reality. In this noise becomes a sort of conspiratorial force in the world. If this entity did not exist the picture we have of reality in our heads would be accurate. But given that this entity does exist it interferes with this picture we hold, distorting it – a demon then, which plays tricks on the mind.

It is this sort of thinking that often leads mathematical economists back into the realm of extremely crude anthropomorphic binaries. Binaries which, upon examination, strike us as being little more advanced than fantasies of witchcraft and folklore. One can say an awful lot about contemporary financial theories, what they actually do and how they function, by examining these crude manifestations of the human psyche.

So Fischer Black created, in his own mind, an entity called "noise" which, for him, explained all the shortcomings of the world. But such raises an important question: shortcomings in the face of what? The answer, of course, is a perfect equilibrium world where everything that was once shrouded in Darkness is brought into the Light. In short, a vision of a world without Sin; a world before the Fall.

But Black, it would seem, thought himself not so naive. His colleagues, he correctly thought, were fooled that they were in the process of returning to the Garden of Eden — or, perhaps, they were already there — but Black considered himself more wily. Black was, it would seem, more of a Manichean. In this Black thought that Light itself — Goodness, Truth, Signal, whatever else we want to call it — relied for its existence on Darkness — Sin, Falsehood, Noise.

It is this simple claim, I think, this slight difference of metaphysics that gives Black his undeserved status among economists today as being an "interesting" thinker. Where the Efficient Market Hypothesis crowd claimed that all was always already right with the world, Black said "No, there is necessarily Darkness in the world, there is necessarily Noise, it is upon this that Light and Signal rely". Here is Black himself in his typical hackneyed prose style:

Noise makes financial markets possible, but also makes them imperfect. If there is no noise trading, there will be very little trading in individual assets. People will hold individual assets, directly or indirectly, but they will rarely trade them. The implication, of course, being that if assets are not traded then there are no markets. And if assets aren't traded unless there is "noise" then there are no markets without noise.

It is this simple, and rather obvious point that makes Black's insights seem edgy and interesting to his colleagues. As we will see this has very little implications for the view of the world held by Black or his followers, one which remains hopelessly devoted to believing that the Promised Land is about to appear at any moment. But before we look at this let us reflect briefly on the culture that produces these sorts of theories.
As already hinted at Black's remarks, which were made when he was president of the American Finance Association, were considered somewhat shocking by his colleagues. What's more, Black was apparently marginalised to some degree by the economists and considered a "finance guy" with funny ideas. And yet his ideas are so mainstream. They are so lacking in shock value and, on examination, appear so crude and overtly metaphysical. Well, I think this tells us something about the kind of culture that bred these financial theories in the first place.

On its face market equilibrium is such a stupid and unrealistic assumption with which to approach the real world. Well that, I would argue, is precisely why a taboo must be placed over questioning it by these people. Because deep down they know that if we had a frank conversation about the assumption they would lose the argument, so a Holy Mist has to be thrown up together with an oppressive culture of devotion and non-questioning.

But back to Black. What does he conclude from his little foray into what he clearly considers heterodoxy. Well, he makes the claim that the market is, despite having a necessary noise-component, nevertheless moving toward some sort of quasi-equilibrium perfection and it is this finding of the Promised Land that will prove him correct. I will let Black lay out his outlandish and childish vision in his own words (and I use the word "vision" here in its mystical sense):

In the end my response to the skepticism of others is to make a prediction: someday, these conclusions will be widely accepted. The influence of noise traders will become apparent.

But now, Black does not mean we will enter a world of instability or turmoil. He continues…
Conventional monetary and fiscal policies will be seen as ineffective. Changes in exchange rates will come to provoke no more comment than changes in the real price of an airline ticket.

What happens if Black's vision does not come to pass? Is he going to organise that everyone drink the Kool Aid if his Promised Land fails to arrive? Nothing so extreme, because Black finds a way to hedge his vision in the most tautological manner imaginable:
If my conclusions are not accepted, I will blame it on noise.
He says this half-joking, of course, but if you follow the logic of his paper closely you will realise that he is at the same time completely serious. Black quite literally Knows that he is right. As if he has received a vision from some entity outside this world. And that, I contend, is what a great deal of modern financial theory is really all about.