SOCIAL PSYCHOLOGY

Mood Swings

Richard Taylor

The world makes money go round. This is John Casti's bold hypothesis in *Mood Matters*, which challenges both traditional financial theory and human gut reaction about how the world works. Most people believe that major world events, such as elections or the outbreak of war, influence the collective mood of society. Casti (a mathematician at the International Institute for Applied Systems Analysis, Austria) argues the opposite: social mood drives the events. In other words, social pessimism affects the likelihood of terrorist attacks rather than the other way around. By his account, the role of the financial market is as an accurate barometer of social mood, and a careful reading of the market's highs and lows might help predict how crucial world events will unfold.

Those within the field of social economics recognize that financial markets are more about understanding people, and in particular crowd psychology, than about money itself. Alan Greenspan, the former chairman of the U.S. Federal Reserve, described human nature's propensity to sway from fear to euphoria as "a condition that no economic paradigm has proved capable of suppressing without severe hardship" (*1*). The book departs from tradition when considering the relation between these mood swings and events. Casti promotes the picture of "socionomics" developed by Robert Prechter, which holds that social moods are driven by fundamental waves of optimism and pessimism that are surprisingly insensitive to world events.

To present the case, "sociometers" are needed to chart the social mood. Using his characteristic mix of clarity and humor, Casti takes the reader through the various measures that might be used. Rising birthrates are an obvious expression of optimism for the future. However, he also shows how more subtle signs reveal correlations as the social mood evolves. These include the construction of skyscrapers, the rise and fall of skirt length, car color, and music trends. Casti presents an effective argument for why the financial market serves as the optimal choice of sociometer.

The author reveals the tell-tale manifestations of socionomics through his meticulous detective work of the time lines involved in major events. In each case, he presents a compelling case for a mood change influencing the unfolding events. His conclusion often directly conflicts with flawed "event induces mood" sensations reported in the media. For example, the 2001 implosion of the U.S. energy company Enron was thought to have triggered a downswing in the financial market. Casti, however, argues that the sociometers at that time (including the financial market) indicated that the mood was already on a downswing. That trend blew in a societal climate of intolerance, which set the scene for the media's subsequent exposure of the Enron crisis.

Mood Matters
From Rising Skirt Lengths to the Collapse of World Powers
by John L. Casti
Springer, New York, 2010. 274 pp. $27.50.
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Whereas readers will accept that mood can influence certain collective events in society, the second part of the socionomics account—that events have little feedback on mood—will, as Casti recognizes, meet with more skepticism. Thus, he asks for a suspension of disbelief while he runs through his comprehensive set of examples. These include the lack of long-term response of the financial markets (and therefore social mood) to dramatic events such as Pearl Harbor and John F. Kennedy's assassination.

Sign of upcoming downturn. Casti notes that construction of the next tallest building in the world (here, the Burj Dubai) starts while the local stock index is soaring, but a financial debacle arrives before the skyscraper is completed.

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This unexpected insensitivity to world events addresses a historic puzzle: why the financial market traces out recognizable patterns as a function of time. As Casti describes in the book's appendix, the peaks and troughs of the financial waves recur at increasingly fine time scales. First reported by Ralph N. Elliott in 1938 (*2*), this repetition at different scales represents one of the earliest noted fractal patterns in a physical system. If we believe the traditional view that the market is driven by irregular and diverse events, why would these cumulate in a distinct pattern? Instead, the fractal patterns provide an insight into human mood and behavior.

This timely book benefited from Casti's background in financial systems and complexity theory. The ten years he spent pondering the concepts and their consequences are evident in the volume of graphical evidence it includes. The author wisely declares his colors early on by stating that the work is deliberately one-sided and "opinionated," which is fair enough because his purpose is to trigger a reaction against the established beliefs of the financial world. The wealth of facts he presents should serve as valuable fuel for future scientific researchers arguing both for and against socionomics.

In these times of financial turmoil, many people will pick up *Mood Matters* with the hope of predicting financial markets. Although Casti includes a summary of Elliott Wave forecasting, his book is substantially more profound than this. By getting to grips with the relationship between events and social mood, he reveals the extent to which the latter determines our future. The last chapter discusses several questions that may help readers use socionomics to predict where our world is headed. The book emphasizes the importance of sociometers in signaling that fate.

The reviewer is at the Physics Department, University of Oregon, Eugene, OR 97403–1274, USA. E-mail: rpt@uoregon.edu

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2. R. N. Elliott, *The Wave Principle* (New York, 1938).

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