MOOD MATTERS

*From Rising Skirt Lengths to the Collapse of World Powers*
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Copernicus Books
An Imprint of Springer Science + Business Media
To Robert R. Prechter, Jr.—from a follower afar
“Homo economicus is extinct, replaced by Homo socionomicus. People are not rationally calculating utility maximizing machines. We are a social pri-
mate species driven by emotions and herd instincts, and the “animal spirits” that push and direct the economy come to life in this ground-breaking work that promises to shake up how we all view the economy in this post melt-
down world. Economists may disagree with Casti on his heavy emphasis on the social mood of society, but they ignore him at their peril.”

**Michael Shermer**, Publisher of Skeptic magazine, columnist for Scientific American, author of “The Mind of the Market”, and professor at Claremont Graduate University.

“They [the chapters] tell an engrossing story, and the mystery heightens as it goes. . . . it’s chatty and knowing.”

**Greg Benford**, Physicist and science-fiction writer, author of “Timescape” and “Deep Time”

“This is an unusual yet important book. If many historians think history is just ‘one damned thing after another,’ driven by chance, John Casti argues that human emotion and belief drive history and endow it with foreseeable patterns. The ‘socionomics’ he champions may seem peculiar in the current intellectual climate, but its ideas will likely be part of a future and more scientific understanding of human events”

**Mark Buchanan**, Author of “The Social Atom” and “Ubiquity”

“I am struck by how thought-provoking it all is. I am sure that this book will draw a lot of attention and create debate.”

**Tor Nørretranders**, Science writer, author of “The Generous Man” and “The User Illusion”
In the pages that follow, readers will be asked to suspend belief in one of the most widely-held ideas about how the world works. Conventional wisdom has it that collective social events—the outbreak of war, the popularity of a certain film, a shift in political ideology—cause a population to feel a certain way about their future. Here we argue just the opposite: The way a population feels is what shapes events. Moreover, there is no feedback from those events to the overall social mood. In short, events don’t matter, at least insofar as what causes a group to feel one way and not another about its prospects for the future. This is the distilled essence of the case made here for understanding the way the world really works. Now let me say a word or two about how and why I came to write this book.

About 20 years ago, I was writing a book on prediction and explanation in science. One of the chapters in that volume was devoted to the forecasting of stock market price movements. As background for that chapter, one of the people I contacted was legendary analyst Robert Prechter, who is most well known for his work on the so-called Elliott wave principle for modeling the movement of stock prices.

Over the years I stayed in contact with Prechter, and discovered that as an outgrowth of his work on the Elliott wave principle he was developing a theory of how the beliefs a population holds about the future biases the types of collective social events that were more or less likely to occur. He called this line of investigation “socionomics” and summarized the argument in
Preface


I followed closely the subsequent development of socionomics by Prechter and his colleagues at Elliott Wave International and the Socionomics Institute, and was continually amazed at how their line of reasoning as to why events unfold the way they do and not some other way. Their arguments provided what to my eye was a much stronger and more convincing approach to understanding human affairs than the conventional wisdom noted above.

Now that I’ve spent a decade living with these ideas and given at least a hundred lectures around the world on the matter, it seemed time to gather together a summary of what I’ve learned and put it down in book form. My goal here is to present the case for what one might call “social causality” as opposed to “event causality” (although any mention of the term causality with its strong whiff of determinism is an automatic red flag). A primary purpose of this book, then, is to make the case for socionomics. Let me say a bit more about what the reader can expect to see in the pages that follow—and what will not be seen.

First of all, the book is a work of advocacy and exposition in support of an hypothesis, what I call the Central Hypothesis of Socionomics. As a work of advocacy the book is definitely “opinionated,” as one reviewer of the manuscript not-so-charitably called it. But who would have ever thought otherwise? After all, opinionated is what “advocacy” means, if it means anything. So I make no apologies for that.

The book is also a call to arms for a deeper research program aimed at generating more evidence to validate or reject the Central Hypothesis. Right now, it’s simply an hypothesis. The book provides as much ammunition as I can muster to support it. So I make no apologies for not presenting the case for the opposition. One thing this book definitely is not is an academic monograph, where custom demands arguments be presented on both sides of whatever fence the book is straddling. So do not expect to see a case presented here for the conventional wisdom. This book is solely to argue the case for the loyal opposition.

Let me add that I have deliberately written the book in a style very different from the passive, third-person voice so typical of scholarly treatises. This is to make the material as accessible as possible to as wide an audience as possible, as well as to dispel the notion that the only way to expose ideas of substance is to wrap them up in language as incomprehensible as possible.
Another thing this book is not is a treatise on stock market price forecasting. While stock price movements play an important role in the story told here, the story is not about stocks, it’s about people. Stock price movements show up only insofar as they are a convenient measure for fluctuations in the mood of a population. So the book is no more about stock prices than a treatise on thermodynamics is a book about thermometers.

A quick scan through the book will show there are many, many graphs. Don’t be alarmed. These charts are the same type you see in the financial pages every day in the newspaper. I’ve only annotated them by inserting different social, political, economic, military or other events at the times when they occurred. So don’t be put off by these graphs. They are the “picture” that’s better than a thousand words.

OK, now for the good part. It’s both a great pleasure and a duty to acknowledge the many friends and colleagues who helped support this work over the past decade with their time and generous comments. For fruitful discussions and suggestions, in no particular order, I thank David Lane, Leena Ilmola, Blake LeBaron, and Jeff Johnson.

The book you hold in your hands has had many incarnations, and numerous friends took time away from pressing daily activities to generously read one or another of those many versions of the manuscript and provide detailed comments and suggestions. For these efforts way beyond the call of friendship, I thank Michael Loescher, Tor Nørretranders, Greg Benford, Ed Binkowski, Gordon Graham, Scott Reamer, Peter Kendall, Rex Cumming, Christoph von Braun, Sally Smith, and Norbert Jesse. I want to express “double thanks” in this regard to my longtime friend Olav Ruud, who kindly volunteered his services as the mythical “target reader” for this book, conscientiously sending me line-by-line comments on the text, as well as suggesting numerous changes in the graphics in order to make the book far easier to understand for a general audience.

Kudos of the first degree are also due the book’s editor, Angela Lahee, who took on a project that many editors would have thought was way too much trouble. It’s that kind of courage and support that every author of unpopular and/or unconventional ideas wants and needs.

Most of all, I thank Robert Prechter for his wise counsel and continuing support, as well as for the many remarkable graphical depictions of socio-economic examples, bringing life to arguments that would otherwise have been made in much drier and far less comprehensible terms.
Preface

Finally, readers who would like to send comments, questions, and/or see updates and discussions of the ideas presented here are invited to visit the book’s Web site at www.moodmatters.net.

Vienna, Austria
April 2010

John L. Casti
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Overview

The memorable events of history are the visible effects of the invisible changes in human thought
Gustave Le Bon, The Crowd, 1895

REVERSE PSYCHOLOGY

Most would agree that John Maynard Keynes was the most influential, if not the greatest, economist of the twentieth century. In his path-breaking book *The General Theory of Employment, Interest and Money*, Keynes spoke of the “animal spirits” that impel people to act outside the scope of deductive, rational thought—action by feeling and belief, not by calculation. The controversial thesis of *Mood Matters* cuts right to the heart of this most Keynesian of notions, and can be unpacked into three elementary principles:

I. It is the social mood of a group or society, how it feels about the future, that biases the character and the likelihood of the events that actually occur.

II. The events that do occur have no impact at all on that social mood. In other words, there is no feedback from events to mood. To put it bluntly
Overview

and compactly, events don’t matter (at least, insofar as the formation of mood is concerned).

III. There are no collective social events occurring outside the human social system. So, the notion of an “external” event impacting the social system and thus “causing” people to feel one way and not another is a complete fiction. There is no outside.

Many will accept Principle I; almost no one believes Principle II. So let me start by explaining Principle III and going on from there.

Copernicus’ 1543 book *De revolutionibus orbium coelestium* (On the Revolutions of the Celestial Spheres) turned the world upside down (literally!) by arguing the exact opposite of the conventional wisdom of its time, namely, that the Sun revolved around the Earth. *Mood Matters* turns one of the conventional wisdom of today upside down too. Instead of events driving mass psychology, we argue here that the social mood of a population/group is what drives events.

In slightly more technical terms, rather than event causality, the book presents the case that the way the world works is through social causality. Let me say right now that in the pages that follow I try valiantly to avoid use of the term causality, with it myriad philosophical and operational landmines waiting to blow up in the face of the unwary. Instead, I will employ words like biases, impacts, or influences, which serve equally well for the purposes of this popular exposition without carrying the philosophical baggage attached to the term causality. Since the “events-cause-mood” mindset is so pervasive, it’s worth considering just how this fiction arose in the first place.

Back in the seventeenth century, Isaac Newton developed his theory of particle motion which even today stands as a model of what a scientific theory of the world should be. According to Newton, a system of particles—planets, billiard balls, atoms—remains in its state of motion unless acted upon by an outside force. So we have the idea of a collection of interacting objects (the system) separated from the rest of the world by some kind of boundary (on the nature of which Newton is totally silent). Already in this Newtonian cosmology we see the idea of an external event (the outside force) causing a system to change its behavior. While the Newtonian picture doesn’t work very well even in physics, at least not in the realm of very small distances and/or very high velocities, it serves quite admirably
to describe what we lowly humans see at the limited scale of time, distance, and speed that characterize our everyday lives.

The huge success of Newton’s scheme in describing observations about things as varied as planetary movement and the motion of tides, both phenomena of great practical concern to astrologers, farmers, and sailors, led some to consider publication of Newton’s book *Principia Mathematica* as marking the beginning of the Age of Enlightenment. With such pedigree, it’s no wonder people began using Newton’s theories as the benchmark against which to measure *all* theories of behavior, both in the domains of nature and of humans.

It is but a small step from Newton’s views of how particles change their configuration to thinking of humans in a society as being simply “particles” buffeted about by mysterious “outside forces” that give rise to the ever-changing patterns of human behavior. This picture leads immediately to the belief that there are collective social events outside the social group or population, and that those events somehow cause the group to change both how it thinks and how it acts. *Mood Matters* says not so! Just because “everybody” believed the Earth was flat didn’t make it so. And just because everybody believes events cause moods doesn’t make that so, either.

I see no outside forces; a social group is self-contained, and in fact, there is no room in a social system for something like the “outside.” Of course, every model is but a slice of the real world. As a result, the model has to draw a fictitious boundary between the slice of the world it purports to represent and the totality of the real world. The social domain is no different. But where you place the “cut” matters—a lot! And it matters even more in the social realm than in the world of planets, electrons, bridges, and basketballs. It’s important to keep this point in mind as we make our way through the book.

This is a good time to return to Keynes and have a quick look at the three pillars upon which his economic theories rest. According to the biographer Robert Skidelsky, the ABCs of Keynes’ work are

A. *No External “Shocks”*—the storms battering economic markets today originate in the financial system itself. They are not random shocks hammering the market from the outside, but part and parcel of the normal workings of the economic and financial system itself. We’ll say much more about this point later when we come to consider the theories of Hyman Minsky, who argues that the very stability of a market generates the seeds of its later instability.
Overview

B. *Networks*—Keynes noted that societies are composed of groups, and, as he put it, are not “branches of the multiplication table.” This is another way of stating his “animal spirits” argument that we began this section with. A consequence of his “organicism,” to use Keynes’ word, is the idea that economic efficiency is not, *in and of itself*, something to be sought at all costs. There’s more to life than mere profits.

C. *Long-term Stasis*—a market depressed by an internal collapse can remain in that state for a very long time. So the market cannot be left to correct itself, at least in a time frame that society would find acceptable. Thus, Keynes argued, governments must step-in to right the ship and prevent a recession from developing into a full-blown depression.

We’ve already stated why Keynes-A is part of our argument. Keynes-C, while being the principle that Keynes is most well known for in the latter-half of the twentieth century, is not something we much ponder in this volume. But Keynes-B certainly is! In fact, it is the single most important aspect of Keynes’ work for us, and will be examined top to bottom, left to right, and back to front, by the time we reach “The End.” Now back to social groups.

Every group has a social mood, its belief about the future, optimistic or pessimistic, and that mood emerges from forces *inside* the group, not outside (wherever that may be). That mood in turn strongly biases the collective events that are seen at a later time. In a nutshell, then, this is the thesis we explore throughout this volume.

In *The Wave Principle of Human Social Behavior and the New Science of Socionomics* (1999), Robert R. Prechter, Jr. proposed what he called the “socionomic hypothesis” of social causality. He summarized the hypothesis as follows: “Social mood is a natural product of human interaction . . . . Its trends and extent determine the character of social action, including the economic, political and cultural. In other words, the socionomic hypothesis is that mood governs events.” In a 2007 article in the *Journal of Behavioral Finance*, Prechter proposed that the “human impulse to herd in contexts of uncertainty” is behind the emergence of social mood.

We can compactly summarize this entire chain of argument in the following diagram, the Central Hypothesis of Socionomics, which makes explicit the components of this flow of social behavior and action:
Overview

THE CENTRAL HYPOTHESIS OF SOCIONOMICS

Herding Instinct → Social Mood (beliefs/feelings) → Social Behaviors and Collective Events

So from the proclivity of humans to herd together in groups comes a social mood. That mood then impacts the character and timing of events that we can expect to actually observe. The conventional wisdom argues for reversal of the second arrow in this diagram; socionomists claim the way/why of the world is just the opposite, and that the contrarian view gives a much better account of the actual facts than Newton’s view of the world projected onto the social sphere.

There is ample experimental and observational evidence supporting the claim that mammalian brains have hard-wired circuitry impelling the possessors of such brains to tend to cluster together in groups with others of their species. No doubt this herding tendency has great value in the struggle for survival, as individuals can generally defend themselves against predators much better in a group than they can separately. That broad principle is doubly true when it comes to the herding mentality so commonly seen in modern society. In the concrete-and-glass jungles where every day is a battle against merciless “predators” of all sizes, shapes, colors, and forms, there is enormous “denial-of-responsibility” value in following the herd. And if there is one survival principle that stands above all others in today’s world, it’s being able to CYA (aka avoid responsibility).

It is by no means well established that the herding instinct on its own can account for the creation or destruction of an overall social mood. After all, this impulse is the property of an individual brain, and whether that is the key property leading to the formation of a crowd dynamic such as a mood in a population is an open issue. It seems the way to bet. But much more empirical work needs to be done under controlled circumstances before we can comfortably accept this as a fact. For now, it’s simply a good working hypothesis.

Strictly speaking, of course, there are several “micro moods,” each representing the beliefs about the future held by some subgroup of a population. But as already noted, scientific models necessitate simplifications from the actual situation in order to make progress in understanding a broader picture. So for the purposes of this book I will assume that whatever group
we’re speaking about—the population of a city, country, or even the entire world—has just a single mood at any given time for a given time scale.

We should also note that the arrows in the diagram suggest there is a flow of information from left to right as we make our way across the diagram. And that is indeed the case. But what the diagram does not show is the time required for that information to flow. So lest the reader infer that the flow is more or less immediate, I want to point out that this is most definitely not the case. And, in fact, the time lags involved in moving information from one part of the diagram to the next is an integral part of our overall story.

Let us make one last bow to Keynes by citing the following statement made in the preface to *The General Theory of Employment, Interest and Money*: “A monetary economy is one in which changing views about the future [emphasis added] are capable of influencing the quantity of employment and not merely its direction.” Robert Skidelsky calls this statement the “core of the Keynesian revolution.” It serves equally well as the core of the ideas presented in this book, too.

In the world of finance and economics, it’s now well established that the financial markets are a leading indicator of macroeconomic events, such as unemployment rates, money supply, and the like. We will see later that the financial markets provide an excellent “meter stick” by which to measure the social mood. The social mood then becomes a leading indicator of macroeconomic events as well, just as the Central Hypothesis would suggest. The more wide-sweeping argument of this book is that the social mood is not just a leading indicator of macroeconomic phenomena, it is a leading indicator of *all* collective social phenomena.

I don’t want to start an extended argument in this brief overview in support of the Central Hypothesis. After all, that’s the point of the entire book. Instead, let me now briefly outline the chapters of the book, returning in the pages that follow to the counterintuitive claims I’ve made above in Principles I–III.

**CHAPTER OVERVIEW**

The basic plan of the book is to begin in Chapter 1 with several examples illustrating our thinking about the relationship between social mood and events. Chapter 2 then proceeds to examine in detail the main content of the Central Hypothesis shown in the diagram presented earlier. The next
three chapters provide an extensive array of empirical examples showing the Hypothesis in action for events unfolding on short, intermediate, and long timescales. The final chapter brings everything together, and offers the reader a set of tools for getting a glimpse at how the world is likely to look in various domains of life during the months and years to come.

The book also contains two appendices. The first is a short, self-contained explanation of the Elliott wave model for projecting financial time-series data into the future, a method I find especially useful for reasons that will become apparent as we proceed through the book. The second is an outline for the type of research program I believe is needed to turn the Central Hypothesis into something approaching a bona fide scientific theory for the “why” of social change.
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Chapter 1

THE UNCONVENTIONAL WISDOM

REACHING FOR THE SKY

A couple of years ago when the Great Asset Mania was raging in full force, I saw an article extolling India’s new-found position in the world scheme of things, one of the many outgrowths of the globalization of the world’s economy, which as it happened was just then beginning to roll over. Somewhere in the middle of this piece was a statement by Delhi architect Hafeez Contractor (what a great name for an architect!), who was obviously caught up in the euphoria of India’s move onto the world’s center stage. He was speaking out for building the world’s tallest building in Delhi, stating “It is about status. It is about glorification. It is high time that people started realizing that we too are a great nation.” While I think most would agree that India is a great nation, even without Mr. Contractor’s cheerleading, his statement underscores a point worth pondering.

Figure 1.1 shows the world’s five tallest buildings as of late 2009. Three of the five buildings are in small Asian countries or the Middle East. Moreover, all have been built within the past decade. And this is not just for the very tallest buildings, either. It turns out that 19 of the 25 tallest buildings in the world share this geographic and temporal property. So what’s going on here? Why are these “little guys” on the world’s geopolitical/economic stage all of a sudden trying to become “big guys”?

We need look only slightly below the surface of Mr. Contractor’s _cri de coeur_ to find the force driving this flurry of skyscraper construction in the newly-minted economic powerhouses of Asia and the Middle East. It’s the very same principle underlying what at the individual level is often informally described as the “Short Person’s” personality.
Psychologists have observed for a long time that human beings, particularly men who are noticeably shorter than average develop personality traits like assertiveness, loud voices, and bustling, take-charge behavior in order to ensure that others notice them. We see the same phenomenon at work at the level of countries. And what better—and cheaper—way to proclaim to the world “We’re here!” than to build the world’s tallest building? Basically, such a tower is a monument to a society’s belief that their future will be just like today—only brighter. So instead of building something that fits the social needs of today, they build something that attests to their vision of tomorrow, tomorrow that rises onward and upward, presumably forever.

But trend following can be a tricky business, as the chart in Figure 1.2 dramatically illustrates. Here we see the Petronas Towers, Taipei 101, and Burj Dubai, each of which was the world’s tallest building at the time of its completion. As a measure of the changing level of optimism for the future in each country, the figure also shows the local stock exchange index. In each chart, arrows indicate when construction of the local monolith began and when it was completed (except Burj Dubai, which is scheduled to be “topped out” in early 2010, and now renamed Burj Khalifa to honor the leader of Abu Dhabi, who bailed out the fast-sinking Dubai economy in December 2009).
History has shown an eerie correlation between tallest-building initiatives and financial debacles. It seems the urge for architectural monuments to human hubris is about as reliable an indicator as you can find for financial trouble. Economist Mark Thornton states that skyscrapers tell us a lot about a country’s technological capabilities, ambition, economic wealth and need to project itself on to the world stage. He says, “[It’s] these features that
make skyscrapers, especially the construction of the world’s tallest building, a salient marker of 20th-century business cycles.”

The right thing for the reader to wonder at this point is why we’re using the stock exchange index as a way of measuring the overall feelings of a population about the future. We’ll talk much, much more about this in the next chapter. For now, it suffices to note only that the stock exchange reflects bets people make about the future on all timescales. So the index certainly says something about how a society feels about what’s likely to turn up next. There are many big issues surrounding Robert Prechter’s suggestion of using of the stock index as a social mood meter, or “sociometer,” including the fact that even in a stock-crazed society like the United States not everyone is directly engaged in buying and selling stocks. But that’s for later. For now, let’s get back to our skyscraper story.

As noted by Peter Kendall in 2006, in each of the three cases shown in Figure 1.2 a funny thing happened on the way to the top. At the time construction began on each of the buildings shown, people’s optimism for the future knew no bounds and the social mood meter, the local stock index, was soaring off into outer space. But skyscrapers aren’t built overnight. And without exception by the time the building was completed the index was lower than snake hips, indicating that the local citizenry was deeply pessimistic about the future. While I don’t have space here to show this story for earlier efforts like New York City’s Empire State Building in the 1930s, I hope the reader will take my word for it that the very same phenomenon was at work there too.

The basic message is that when a society is optimistic about the future and is trying to get recognition on the world stage, an easy way to broadcast their “We’ve-arrived” message is to build the world’s tallest building. But by the time that building is complete, the population has undergone a sea change in its beliefs about the future and the national mood has sunk back to a level far below where it was when construction began.

What we see at work here is what might be called The Skyscraper Index. One implication of this Index is very clear and simple: If you see a country starting to build what it claims will be the world’s tallest building, the time has come to start bailing out of stocks in that country’s market as fast as you can! In short, when everyone starts believing the future is rosy, it’s already very late in the day for the underlying positive social mood. By then that mood is mature and a rollover to the negative is imminent. We’ll see a lot more of this kind of contrarian thinking in the chapters to follow.
For far-sighted (and thinking) readers, it’s worth noting that South Korea has just announced construction of the world’s second tallest building, Lotte Supertower 123, to be built in Seoul. This will be the tallest building in Asia, and only exceeded in height by Burj Khalifa. Excavation of the site was completed in 2009, and the tower is scheduled to be topped out in 2014. For visionary investors it wouldn’t hurt to start looking for the top of the Korean stock market... soon.

Before moving on to other matters, this is a good moment to emphasize that the goal of this introductory chapter is to present ideas relating social mood to collective, not individual, human events, and to suggest a direction from mood to events that runs directly counter to the conventional wisdom claiming that things unfold exactly the other way around. A natural consequence of this topsy-turvy argument is that the reader schooled in conventional wisdoms as to how the world works is going to want to engage in debate at almost every stage of our presentation. That’s all to the good, since that’s what this chapter is about: raising questions—but not necessarily answering them. The remainder of the book is devoted to providing as full, complete, and honest answers as we can give at this stage of our knowledge. As we proceed, I’ll try to point out what I believe are the most important questions that we’ll be looking at later in the book. So by the end of our story there will definitely be answers. But I don’t claim there will be a one-to-one correspondence between the two! Just something better, a lot better actually, than what you’ll have in mind at the end of this preliminary chapter.

Now let’s have a look at something a bit more serious than skyscrapers but still conveying pretty much the same message. And that message is that the kinds of things that happen when a group is optimistic about the future are, generally speaking, qualitatively very different from the sorts of events that tend to occur when the dominant mood is pessimistic.

**THE ART OF THE POSSIBLE**

Conventional wisdom has it that political trends are a key determinant of the stock market’s gyrations. As an election approaches, commentators endlessly debate the effect the outcome of the election will have on stock prices. Investors weigh up which candidates will influence the market to move up or down. Statements like “If Jones is elected, it will be good for the market, but Smith’s election will cause stocks to tank” are common.
If this causal relationship were even approximately correct, there would be evidence that a transfer of power from one party’s leader to another affects the social mood, hence, the stock market, in some very specific ways. There would also be evidence that certain political parties or policies reliably produce bull or bear markets. There is no study showing any such connections or correlations. On the other hand, it's not hard to see just the opposite at work.

A strong and persistent trend in the stock market dramatically biases whether an incumbent president or the incumbent’s party will be re-elected in a landslide or defeated in one. In all cases where an incumbent remained in office in a landslide, the stock market’s trend was up at the time of the election. In all cases where an incumbent lost in a landslide, the stock market’s trend was down—as it was prior to the 2008 election that swept Mr. Obama into the White House.

Again using the stock market index as a surrogate for how the American citizenry rates the future, we find that there is not a single case in which an incumbent was re-elected despite a deeply falling stock market or was defeated in a landslide despite a strongly rising market. According to Robert Prechter’s analysis, the conclusion is clear:

When a population is optimistic about the future so that the social mood waxes positive as reflected by persistently rising stock prices, voters wish to retain the leader who symbolizes their upbeat feelings and who they presume helped cause the conditions that gave rise to their feelings. On the other hand, when the social mood turns negative as reflected by persistently falling stock prices, voters throw out the incumbent who symbolizes their downbeat feelings and who they presume helped bring about the conditions leading to their pessimistic outlook. The actual political policies of the incumbent and the challenger are irrelevant to this dynamic. The key is a desire for change per se, not for any particular type of change. The conventional wisdom that the president and/or his party drives the stock market, has no explanation for reconciling the relationship between these phenomena.

To illustrate, in November 2004 the overall mood of the American populace as measured by the Dow Jones Industrial Average (DJIA) was rather upbeat. This mood then translated into a not-entirely-landslide victory for George W. Bush. But it was a victory, nonetheless. This line of argument
THE UNCONVENTIONAL WISDOM
certainly gives cause to ponder the outcome of the 2012 US presidential election. If the social mood declines between now and then, the Democratic incumbent Mr. Obama is very likely to become a one-term president and go the way of Nixon, Hoover, Carter, and all the other political “dodo birds” of the species politicus americanus. But if the markets miraculously recover and are surging upward in November 2012, then the return of a Republican president is very unlikely. That’s a big “if”, of course, as its still some way to the autumn of 2012.

A small straw is already blowing in the wind, though, as a poll taken at the end of August 2009 showed that Americans are losing their faith in President Obama, especially in his seeming inability to curb the growing federal budget deficit and to pump up the moribund job market. The fraction of the population that said they believed Mr. Obama would make the right decisions for the country had declined to 49% from the 60% at the 100-day mark of the Obama presidency. A few months later, the situation was no better as Obama’s popularity slid in January to 47%. And the Congress was doing no better. Over 60% of the respondents said they were not satisfied with one or more of their representatives, and 29% said, “Representatives? We have representatives?” But, again, it’s a long time to the end of 2012, and polls like these are well known to move all over the place as events come and go.

To conclude this example, our claim is that an increasingly negative social mood impels voters to magnify politicians weaknesses, minimize their strengths, perceive that old political styles have failed, and eventually kick out the incumbent at the next election or even before it occurs. The situation with Governor Gray Davis in California a few years back is a good example of this shift in mood threatening an incumbent politician’s job. A bear market raged for 3 years from 2000 to 2002. So voter hostility had to erupt somewhere. And it did, leading to Davis’ recall and the election of “The Terminator” as the governor of California, as we will discuss in greater detail in a later chapter.

Summarizing the overall lesson, the conventional analyst asks, “How do political leaders’ actions cause a change in their popularity (social mood)?” The social mood analyst asks just the opposite question: How does the social mood affect voters’ perceptions of political leaders? This is the relevant question, and it is supported by strong statistical studies cited in the References for this section.

To conclude this introduction to social mood and its impact on events, here is a global-level illustration.
CHAPTER 1

FROM GLOBALIZATION TO LOCALIZATION

Unlike skyscrapers which are an inherently local phenomenon, confined to a particular geographical space, the not-so-currently-trendy idea of globalization, which views the world as one gigantic marketplace for fulfilling the dreams of humankind, unfettered by the inconveniences of restrictions on the flow of capital, labor, materials, or ideas, is another collective social phenomenon that is on the road to coming undone.

In the fall of 2006, I was invited to make an address at the annual meeting of the European Futurists Society in Lucerne, Switzerland. To liven things up a bit, I chose as the title of my presentation “The Decline and Fall of Globalization,” a theme not at all in harmony with the rosy optimism on offer from the overwhelming majority of presentations at that event. In point of fact, I would say my talk probably qualified as the meeting’s least popular presentation as few, if any, in the audience had anything supportive or constructive to say about it.

As fate, or perhaps divine justice, would have it, though, just two short years later the organizer of this annual event, Georges Roos, phoned me a couple of weeks before the event and asked if I could come and say a few words at the 2008 meeting about how I came to ideas so strongly rejected two year’s earlier. I’ll have more to say about this matter later in the book. At this juncture I only want to record the fact of this “tale of two presentations,” in order to enshrine in print my sense of satisfaction in being able to return to the very same podium and say (discreetly, of course), “Do you remember what I told you two years ago?”!

In its modern incarnation globalization had its birth at the 1971 World Economic Forum meeting in Davos, Switzerland. That was a time when the social mood was escalating upward at a dramatic rate. A few years later, the G8 was formed, followed by the North American Free Trade Agreement (NAFTA), and later the formation of the World Trade Organization (WTO). Since the driving force behind globalization is to a large degree the American corporate community, we look to the DJIA from 1970 to 2004 as an indicator of the overall global mood for this example, since the New York Stock Exchange is still about the closest thing we have to a global financial market. Every single milestone in the path to globalization from the launching of the basic idea at Davos to the formation of the World Trade Organization in 1996 to China’s joining of the WTO in 2000 took place at a peak in social mood, as illustrated in Figure 1.3. Here I’ve inserted