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The wisdom of herds: How social mood moves the world

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DURING an international conference in Switzerland in 2006 I told an audience that if I were to take a 20-year nap, one thing I would certainly not expect to see when I awoke would be a European Union, or at least not one that bore more than a passing resemblance to today's model. This followed an earlier claim of mine that the phenomenon popularly known as globalisation was in the process of rolling over, and that it will be replaced in the coming years by its opposite, localisation. This was probably the least popular talk at the meeting, and a leading candidate for the talk that provoked the most hostile audience reaction of any I have ever given. (I should mention that this was a conference of futurists.)



Affecting my mood (Image: Katja Lenz/AFP/Getty Images)

What a difference a year or two makes. The driving force behind both these temerarious claims is what I call the "social mood" of a population. No collective human activities or actions, such as globalisation or, for that matter, trends in popular culture such as fashions in films, books or haute couture, can be understood without recognising that it is how a group or population sees the future that shapes events. Feelings, not rational calculations, are what matter. To see what our world might be like tomorrow, next year or next decade, we need to spend time and money investigating "social mood".

Put simply, the mood of a group - an institution, state, continent or even the world - is how that group, as a group, feels about the future. Is the group optimistic or pessimistic? Clearly, this question must be addressed on the timescale appropriate for the type of event we care about. For instance, in a short-timescale prediction such as the sort of films people will like next year, it would be useless to look at the shifting mood of the population over decades. But decades would be exactly right for a phenomenon like globalisation.

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So how do we measure the social mood? Public opinion surveys and questionnaires are of very limited use since they don't reflect what people actually do. Nor do they take into account that people are influenced by others and don't make decisions independently. The very essence of social cohesion is grouping together, or "herding", which is the opposite of individuals making independent choices.

It turns out that one very useful measure of the social mood, reflecting both actions and herding, is a financial market average. A market index such as the Dow Jones Industrial Average (DJIA) in New

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York serves remarkably well to characterise the "bets" people make about the future on all timescales. It is not a perfect "mood meter", but it works, is easy to obtain from newspapers, has very little measurement error, and provides historical data on all timescales.

All of these are highly desirable qualities for any practical "sociometer" - a term coined by the American financial guru and social theorist Robert Prechter in his studies of social mood, brought together in 1999 in *The Wave Principle of Human Social Behavior and the New Science of Socionomics*. This wave principle, formally named the Elliott wave principle after accountant Ralph Nelson Elliott, who developed the concept in the 1930s, describes how financial markets follow swings in mood from pessimism to optimism and back, in a natural sequence, creating wave patterns in price movements.

For nearly a decade now, I have been reflecting on the empirical evidence that strongly suggests that events taking place in periods of positive social mood are of a dramatically different character from events you can expect when the mood is negative. So when people are optimistic about the future, words like "unifying", "liberating", "joining" and "tolerant" tend to describe the events we are likely to see. The opposites - "fragmentation", "separation" "restricting", and "bigoted/xenophobic" - describe events that tend to occur in periods of negative mood.

Returning to globalisation, the modern form - the free flow of money, people, ideas and materials across national boundaries - was born at the 1975 World Economic Forum meeting in Davos, Switzerland. That was a time when the social mood was buoyant and rising dramatically. The Group of Six (the global government forum which by 1997 had grown into the Group of Eight, or G8) was set up that year. In 1994, the North American Free Trade Agreement was created, followed by the World Trade Organization in 1995. All three events took place when the DJIA was shooting off into the stratosphere.

The associated skyrocketing globalising process started to run out of steam in early 2000, just when the social mood went into decline for nearly three years. Then, in late 2002, the mood (according to the DJIA) turned upward, leading to the spate of articles, books and media reports extolling the virtues of globalisation that we were bombarded with until the bottom fell out of both the social mood and globalisation - and a lot of other things - in late 2007.

Consider these two headlines: "Unexpected results: globalization has widened income disparity" (*The Wall Street Journal*, 24 May 2007) and "Trade talks fail to get doha plan" (BBC Online, 18 May 2007). Does either sound like it describes a story you would label as being "joining", "unifying" or "tolerant"? They are not about minor technicalities or marginal aspects of globalisation either, but about the very foundations of the process: income balance, free movement of labour, reduction or removal of trade tariffs, and the like. These headlines come from a time when the global social mood, as measured by the DJIA, was rising to its peak in October 2007.

Suppose we want to establish a longer-term picture of Europe's social mood. Using the Dow Jones Stoxx Euro 50 index of blue-chip companies in Europe over the last 25 years, we would add milestone events in the history of the EU to this chart. So, for example, the Single European Act of 1987, the 2001 Treaty of Nice that cleared the way for expanding the union, and the 2009 Lisbon Treaty would be our "positive mood" events, taking place during periods when share prices were topping out. "Negative mood" events, such as setbacks in ratifying the constitution of the EU (2003), the risk to the countries within the euro area from the banking debacle (2008), and the current Greek debt crisis (2010) all took place at periods when shares were tumbling.

To close on a small word of caution: there was never any certainty that the events I have described here would actually happen. Social mood theory provides a probabilistic forecast, not a certainty. But at the end of my book *Mood Matters*, I argue that it is probably a mistake to think that the long-term negative social mood is over. The DJIA topped out in real-money terms - relative to the value of gold - in 1999 and it has been downhill ever since.

I quote John Petersen, founder of the Arlington Institute, a non-profit think tank which specialises in predictive modelling. He believes we are at the start of "megachanges", including the collapse of the

global financial system, the end of oil, serious climate change, dramatic rises in food prices, and more. I would add the loss of everyday jobs such as car worker, and supermarket or airline employee. What makes the situation uniquely complex is that the multiple trends are converging.

So, to keep up with the rapidly changing circumstances of the coming years, and cushion ourselves against the "social tsunami" we are facing, the best strategy is to follow Petersen's advice: stay flexible, remain open to new ideas and, most importantly, stay cool.

Profile

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