

# PROGRESS IN SOCIONOMICS

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## Douglas Speaks At the 8<sup>th</sup> Alternative Perspectives on Finance Conference

Seventeen academic participants from Canada, Chile, Poland, Slovenia, Sweden, the United Kingdom, and the United States engaged in a creative and lively discussion at the 8<sup>th</sup> Alternative Perspectives on Finance Conference, held this year in Zacopane, Poland, August 6-8<sup>th</sup>. Professor Hernán Cortés Douglas of Catholic University of Chile represented the socionomic perspective with his paper, "Toward A Revolution in Macroeconomics." Douglas proposes that the Wave Principle and a reconsideration of the role of debt could provide macroeconomics with a more relevant framework. Macroeconomics' "total failure in anticipating all major (and minor) trend breaks of economic activity and markets has made it useless," he said. "The new approach would lead to accurate prediction in form and...timing." Discussants, rather than the authors, presented the papers with their own comments and criticism. Chris Robinson of York University in Toronto presented Douglas' paper. According to Douglas, Robinson said, "There are lots of people with money, brains, and influence that do believe and follow Elliott Wave Theory." Douglas also reported that Myron Gordon, Professor Emeritus of Finance, the University of Toronto, added, "Capitalism needs constant growth, but increases in debt prevent it." Professor Douglas thanked the Socionomic Foundation for sponsoring his participation. The next conference will likely be held in Chile in January 2008.

## Letter from the Director

Socionomics was a prominent topic on the academic circuit this summer. Three speakers sponsored by the Socionomics Foundation presented the socionomic perspective at conferences in the U.K., Poland, the U.S., and France, and an associate of the Institute spoke in Brazil. Is the social mood becoming more accepting of new paradigms? Stay tuned....

Gordon Graham  
Director, Socionomics Institute

## Green Speaks At Post Keynesian, Institutional and Feminist Economics Conference

Dr. Michael K. Green of the State University of New York at Oneonta spoke on "Social Ontologies and the Social Construction of Risk and Uncertainty" at the Interdisciplinary Graduate Workshop in Post Keynesian, Institutional and Feminist Economics, held June 18-24 at the Center for Full Employment and Price Stability at the University of Missouri at Kansas City.

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Sixty-four students and 24 faculty members from around the world attended Green's workshop. Green pointed out that, historically, scientists have used two basic problem-solving strategies. Analytic approaches take a problem and break it down into smaller and smaller components until some fundamental elements are identified. Holistic approaches attempt to model the behavior of systems as a whole. Traditional economics has taken the first approach, in which isolated, rational decision makers are made basic. Since fundamental elements change only as a result of external forces acting upon them, this approach to economics looks for extrinsic factors to explain change. The alternative approach is to attempt to model the behavior of whole systems in which systems change as a result of internal dynamics and not so much as a result of external factors acting upon the system.

In the 1920s, Pitirim Sorokin, a Harvard sociologist, developed a theory of society based upon a theory of intrinsic change that fits with Prechter's work in socionomics. The externalistic theory of causality has a broad following in the social sciences as all forms of environmentalism, mechanism, and behaviorism adopt this conception of causality. In contrast, Sorokin's theory of immanent change holds that social systems contain within themselves the seeds of change. He provides several objections to the principle of external causality as applied to social systems. First, such a view of causality is not empirically supported. Any system that is functioning is, by that very functioning, changed. Functioning of the system generates stresses and new challenges to which the system must respond in order to continue its functioning. In addition, the externalistic theory suffers from some conceptual difficulties. If every event is supposed to be explained by a prior external event, then one becomes entrapped in an infinite regress as any given explanation can itself be resolved into other external factors, and these into others, and so on. Otherwise, the theory contradicts itself by positing some factor that is not changed externally but is changed by its own activities. Sorokin argues that another principle, the Principle of Limits, governs change in social systems. Change does not go on forever in a given direction. Instead, it reaches an extreme and then reverses. Thus, societies move in cycles, which is one of the central tenets of socionomics. For the rest of the workshop Green used various sentiment indicators to show that

emotional extremes portend a reversal as a sign that a limit has been reached.

## **Expo Trader Brazil 2006 Conference**

Steven Hochberg of Elliott Wave International addressed the Expo Trader Brazil 2006 investment conference, held in São Paulo, Brazil on June 7-8, 2006. Topics included news as it relates to the stock market, mental tools for traders and market cycles. A special presentation of *History's Hidden Engine* highlighted the first day's agenda. Hochberg's topic, "An Elliott Wave View of the World," introduced the conference to the Wave Principle model for forecasting price trends. His presentation was well received, with a lively question-and-answer session at the end.

## **Behavioral Economists Hear About Socionomics at Paris Conference**

*By Wayne D. Parker, Ph.D.*

*Executive Director, Socionomics Foundation*

The International Association for Research in Economic Psychology (IAREP) and the Society for the Advancement of Behavioral Economics (SABE) held their joint congress at the Sorbonne in Paris, France, during July 5-8, 2006. Marco Novarese, the noted Italian economist, invited Dr. Wayne Parker to speak about socionomics in a session of the congress that he organized. Parker presented his paper on "Methodological Individualism vs. Methodological Holism: Neoclassicism, Institutionalism and Socionomic Theory" (see the Summer 2006 issue of *Progress in Socionomics* for an abbreviated abstract of this paper).

Over 600 behavioral economists attended the IAREP/SABE joint congress this year, representing almost 50 countries. Daniel Kahneman, the Princeton psychologist who won the Nobel Prize in economics in 2002, and Antonio Damasio, neurologist and author of *Descartes' Error*, were two of the featured keynote speakers at the congress. Both speakers addressed issues that are relevant for socionomic theory.

Kahneman's lecture, "Steps Toward a Science of Well-Being," outlined his ambitious 10-year research project studying "states of well-being"

over time in groups of women in two different cities, one in France and one in the U.S. His longitudinal, cross-cultural study aims at testing his theoretical model of well-being by examining two concepts that are both somewhat related to socioeconomics' concept of "positive mood": "life satisfaction" and "experienced happiness." Kahneman's past research in this area has suggested that these are related but different concepts, leading him to hypothesize that we all have "multiple selves," including both an "experiencing self" (which Kahneman relates to ongoing experiences in the present that are experienced as either positive or negative, thus reflecting one's degree of "experienced happiness") and a "remembering-evaluative self" (which Kahneman relates to a person's summary evaluations of past experiences, thus reflecting one's degree of "life satisfaction").

His findings over the next 10 years may shed some additional light on important aspects of affective experience in two different cultures over time, and this may prove to be useful information that has some relevance for future socioeconomic research. We are already exploring the possibility of future longitudinal, cross-cultural socioeconomic research with colleagues in Italy and Russia.

Antonio Damasio's lecture, "Advances in the Neurobiology of Emotion," outlined his neurological research and theoretical conclusions over the past 15 years or so. Damasio is one of the fathers of the new field of neuroeconomics, the study of the neurological substrate of economic decision-making. In the early days of neuroeconomics, Damasio and others found during research with patients that had a damaged amygdala (the brain area that mediates fear and other affective experiences) that such patients were extremely trusting of others – pathologically so – and were thus unable to detect untrustworthiness in others during financial transactions. Damasio's more recent research with patients with damage in the ventromedial prefrontal cortex (VMPFC) revealed that these patients cannot predict how their current investments will perform later on. And yet these same patients (with VMPFC damage) also outperform normal subjects in some investing games, since they are insensitive emotionally to catastrophic losses, while normal investors tend to overreact to such events (this research was reported in the June 2005 issue of

*Psychological Science*). In certain gambling games, during the anticipatory period normals respond to reward and punishment conditions differentially, but the VMPFC-damaged patients lack such an anticipatory response to expected punishment.

Research such as Damasio's has demonstrated the important role that the VMPFC plays in financial decisions. As such, it may be relevant to socioeconomics as well.

Damasio's theory of emotion classifies emotions as follows:

- 1) *background emotions*, which Damasio relates to affective dispositions such as "enthusiasm" and "discouragement";
- 2) *primary emotions*, such as anger and fear; and
- 3) *social emotions*, such as compassion, shame, pride, and contempt.

In Damasio's theory, all of the categories of emotions, including "background emotions," are relevant for:

- 1) Reward and punishment mechanisms;
- 2) Drives and motivations;
- 3) Immune system regulation; and
- 4) Metabolic regulation.

In his theory of emotion Damasio attempts to explain how emotion is complexly but integrally involved with all of these regulatory mechanisms in the homeostasis and biological regulation of life, disease, and death. While socioeconomic theory has a more circumscribed goal – the explanation of human social behavior in the aggregate in contexts of decision-making under uncertainty – our research will similarly need to eventually explore how social mood is related to the complex interconnections among the same regulatory systems in humans which Damasio is studying.

In the socioeconomic paper Dr. Parker presented at the IAREP/SABE congress, he argued that social fads take place in scientific theorizing as in other, more frivolous domains of human social behavior, and that waves of unconscious social mood over the decades may explain the trends in such theorizing. The paper gave the example of swings between methodological individualism and methodological holism in economic theory over the past three centuries to illustrate this

thesis. The paper was well-received at the congress, with many attendees asking questions about socio-economic theory, commenting on the originality of the ideas suggested by socio-economics, and offering methodological suggestions for future research to explore the thesis of the paper more thoroughly.

## **Socio-economics Presented to Heterodox Economists at London Conference**

*By Wayne D. Parker, Ph.D.*

*Executive Director, Socio-economics Foundation*

The annual meeting of the Association for Heterodox Economics was held in London during July 14-16, 2006. Dr. Wayne Parker presented a paper he co-authored with Robert Prechter, titled "The Socio-economic Theory of Finance and the Institution of Social Mood: Pareto and the Sociology of Instinct and Rationalization" (see the Summer 2006 issue of *Progress in Socio-economics* for an abbreviated abstract of this paper). The conference, hosted jointly by the London School of Economics and University College London, featured stimulating exchanges among economists of many different theoretical orientations. The theme of the conference was "Economics, Pluralism and the Social Sciences," reflecting the organizers' desire to explore "the relation between economics and other branches of the social sciences." Parker and Prechter's paper, exploring the relationship between sociological theory and economic theory by examining the parallels between socio-economic theory and Pareto's sociology, fit well with the focus of the conference.

The paper provoked a lively discussion at the conference. Several attendees noted parallels between socio-economic theory and elements of post-Keynesian theory. Three main questions came up in different forms:

1. Even if you can prove that herding results in this fractal pattern, what *causes* this herding?
2. Is herding of this sort a normal occurrence that goes on all the time, or is it exceptional? (Post-Keynesians believe that herding takes place only during market extremes.)
3. If the mood trends are at all predictable, doesn't that destroy the *uncertainty* that

you say is necessary for the herding that creates these mood trends?

Perhaps you can think of answers to these questions if you have been a student of socio-economics for some time. Here are mine:

1. The two-level model of socio-economic causality posits an autopoietic relationship between the neurophysiology of mood at the individual level and the morphogenetic patterns of relative constraint at the aggregate level. A forthcoming paper currently in progress at the Socio-economics Foundation will explain this new model of causality more thoroughly.
2. Herding takes place unconsciously all the time at all degrees; "bubbles" and "crashes" are just part of this fractal process.
3. There is little danger that socio-economic theory will become so universally known and applied that the uncertainty necessary for markets to operate will ever be destroyed. Among those investors who do study and accept WP, the probabilistic nature of forecasting on the basis of this highly variable fractal pattern rarely serves to mitigate significantly an investor's feeling of uncertainty about the future course of prices. Therefore probabilistic predictability re the market for WP experts and uncertainty among the herd are not mutually exclusive.

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