

PROGRESS IN SOCIOECONOMICS

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Socionomics Foundation Funds Stanford Brain Imaging Research on Unconscious Mood and Trading

The Socionomics Foundation just awarded a grant to Julie L. Hall, M.A. for her research proposal, "Mood Influences on Decision Making and Risk Taking." Hall's study will use functional magnetic resonance imaging (fMRI) technology at Stanford University to explore the neural correlates of unconscious mood and how mood influences the behavioral and neural processes involved in financial decision making. This grant, the first the Foundation has awarded in the area of neurophysiology, will provide the funds for Hall to build on the prior research of Dr. Brian Knutson, also of the Stanford University Psychology Department, whose research we reviewed in an earlier issue of *Progress in Socionomics*.

In her study, Hall will use experimental tasks designed to assess implicit, endogenous moods existing outside of the participants' conscious awareness. Participants will then have their brains scanned while engaging in a task designed to simulate a simple trading environment. The results should allow us to begin to understand whether positive and negative moods unconsciously affect financial decision-making and, if so, how they modulate brain activity in regions of the brain associated with risk-seeking and risk-aversion.

Hall currently holds Master's degrees in Psychology and Neuroscience and will use this research as part of her doctoral dissertation. She has received national recognition for her research and has published over a dozen publications and conference presentations in her field. She recently received a research award from the American Psychological Society and was named a Research Fellow by the Wisconsin Health Emotions Research Institute. Hall received her training in brain imaging,

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psychophysiology, and facial coding of emotion in the laboratory of Stanford Psychology Professor James Gross, one of the world's leading experts in emotion and affective neuroscience.

You can help make it possible for us to conduct the neurophysiological research necessary to establish the neural correlates of unconscious mood and other key aspects of socioeconomic theory. Please consider making a tax-deductible donation to the Socionomics Foundation. For more information about how to donate and how your donation will be used, see our website at www.socionomics.org. Please visit now. Thank you!

Letter from the Director

Viewers of *History's Hidden Engine* are responding positively to filmmaker David Edmond Moore's documentary on socioeconomics. Several thousand people downloaded the film in the first month, and critics have begun to review it. You can read the review by a U.K. film site at www.iofilm.co.uk/io/mit/001/historys_hidden_engine_20060512.php, and you can still view the documentary for free at www.socionomics.net.

The new [Socionomics In Action](#) archive includes reports on topics as disparate as fashion, sex, music, sports, war and politics, all written from a socioeconomic perspective. Feel free to scan these resources and to forward the links to your friends and colleagues. You can also send feedback to us at institute@socionomics.net.

Gordon Graham, Director
Socionomics Institute

Upcoming Events

Wayne D. Parker, Ph.D.

July 5-8, 2006, Paris, France: *Congress of the International Association for Research in Economic Psychology (IAREP) and The Society for the Advancement of Behavioral Economics (SABE)*

Paper title: "Methodological Individualism vs. Methodological Holism: Neoclassicism, Institutionalism and Socionomic Theory."

July 14-16, 2006, London, England: *8th Annual Conference of the Association for Heterodox Economics*, London School of Economics and University College London

Conference theme: "Economics, Pluralism, and the Social Sciences"

Paper title: "The Socionomic Theory of Finance and the Institution of Social Mood: Pareto and the Sociology of Instinct and Rationalization" by Wayne D. Parker and Robert R. Prechter, Jr.

Hernán Cortés Douglas

August 6-8, 2006, Zakopane, Poland: *Alternative Perspectives on Finance, 8th Biennial Conference*

Paper title: "Toward A Revolution in Macroeconomics"

Recent Activities

Robert R. Prechter, Jr.

March 16-17, 2006, Vienna, Austria: *The Kenos Circle: Oil Puzzle Conference*

Presentation title: "Peak Oil Or Peak Prices?"

Robert Prechter addressed a group of 50 attendees to the first international oil conference. Speakers included OPEC Acting Secretary-General Mohammed S. Barkindo, Kenos Circle President John Casti and additional American and European analysts. Topics included oil reserves, geopolitical risks, hedging, complexity science and Prechter's topic: price forecasting based on Elliott waves, technical indicators, economic forces and socionomic evidence. Prechter reported a positive reaction to what for many attendees was a new way of looking at the forecasting problem.

Michael K. Green, Ph.D.

May 12-13, 2006, Athens, Greece: *The Economic History Research Area of the European Association of Evolutionary Political Economy (EAEPE) and the Economic Policy Laboratory (EMOP-Athens University of Economics and Business) Joint Colloquium*

Athens University of Economics and Business
Theme: 'The variety of economic institutions under the many forms of capitalism'

Dr. Green presented a formal lecture titled "Institutions and the Creation and Destruction of Trust." He presented the socionomic perspective by arguing that social institutions, including markets, have two components—a set of rules for the institution and a set of emotional commitments to those rules. The paper presents several ways of

measuring the creation and destruction of trust in markets through various sentiment indicators and discusses the significance of these to changes in the nature of market institutions.

The Colloquium was very productive. Scholars from three continents and seven different countries attended. Debate centered on two items. First, vigorous discussion surrounded Prechter's distinction between economics and finance. Second, participants discussed whether fundamentals or sentiment are more basic to long-term economic processes. The Colloquium organizers are seeking to have the results published through an established academic press.

John Casti, Ph.D.

April 6-8, 2006, Laxenburg, Austria: *International Institute for Applied Systems Analysis (IIASA)*

A seminar sponsored by the Calouste Gulbenkian Foundation titled: "Globalization as Evolutionary Process: Modeling, Simulating, and Forecasting Global Change"

Presentation title: "The Decline and Fall of Globalization"

<http://www.tfit-wg.ubi.pt/globalization/program.htm>

Swiss Federal Institute of Technology (ETH) Zurich
Teleconferenced lecture broadcasted from SHARE/
Consulate of Switzerland, in Cambridge
April 20, 2006, Boston, USA

Presentation title: "Why the Future Happens: Socionomics and the Science of Surprise"

At both venues, Dr. Casti presented the socionomic hypothesis that social mood causes collective behavior and speculated on the current global mood environment and its implications.

Parker to Speak at Behavioral Economics Congress In Paris

The International Association for Research in Economic Psychology (IAREP) and the Society for the Advancement of Behavioral Economics (SABE) will hold their annual joint congress in Paris on July 5-8. Dr. Wayne Parker, Executive Director of the Socionomics Foundation, will present a paper titled "Methodological Individualism vs. Methodological Holism: Neoclassicism, Institutionalism and Socionomic Theory" as part of a panel chaired by Italian economist Marco Novarese. An excerpt from the abstract of the paper follows this article.

The joint IAREP/SABE meeting is an important one for behavioral economists in Europe, the U.S. and elsewhere. Daniel Kahneman, a Princeton psychologist who won the Nobel Prize in Economics in 2002, and Antonio Damasio, a pioneer in neuroeconomics, will also deliver presentations.

You can read more about the IAREP/SABE conference at <http://team.univ-paris1.fr/iarep-sabe2006/>.

Methodological Individualism vs. Methodological Holism: Neoclassicism, Institutionalism and Socionomic Theory

Wayne D. Parker, Socionomics Foundation, Gainesville, Georgia USA and Emory University School of Medicine, Atlanta, Georgia USA

Abstract

Aims – Historically, there has been tension between *methodological individualism* (MI) and *methodological holism* (MH) in economics. Rather than a steady accretion of progress toward more complete social knowledge, one sees an oscillation between the popularity of MI and MH due to fluctuations of unconscious social mood. The new paradigm of socionomics offers a more complete theoretical synthesis of MI and MH (compared to the new institutionalists) in its theory of the emergence of individual cognitive and affective processes in aggregate patterns of human social behavior.

Method – This paper presents an analysis of the history of economic theory since the 17th century, which supports the socionomic thesis that endogenous social mood determines social

events (including fads in social knowledge such as economic theorizing), not the common view that social events exogenously determine social mood.

Results – An examination of social mood during the periods of the mercantilists, the physiocrats, and the classical economists yields trends consistent with the same findings relative to institutionalists vs. neoclassicists, that is, periods of positive social mood correlate with methodological individualism, while periods of negative social mood correlate with methodological holism.

Conclusion – Economic theories related to social knowledge are likely to predominate in the period ahead over theories focusing on individual knowledge. Socionomic theory resolves the MI/MH conflict, as well as the conflict between the goal of mechanistic neoclassicism (to predict) and the goal of contextualist or organicist institutionalism (to understand) by addressing both goals with its new methodology.

Parker and Prechter Paper Accepted for Heterodox Economists' Meeting

The Association for Heterodox Economics (AHE) recently notified Robert Prechter and Wayne Parker that the paper they submitted for the association's annual meeting has been accepted. Dr. Parker will present the paper at the 8th Annual AHE Conference, which will be held this July 14-16 at the London School of Economics and University College London. The theme of the conference is "Economics, Pluralism, and the Social Sciences." The conference website notes:

Last year's highly successful AHE conference yielded a stimulating and original range of papers on pluralism in economics, in opposition to the currently non-pluralistic dominance of the neo-classical mainstream. A striking feature of the conference was the growing interdisciplinary character of the contributions, which explored, generally but not exclusively from the standpoint of economics, the relation between economics and other branches of the social sciences. The Eighth Annual Conference will build on this success.

An excerpt from the abstract of the paper is on page 4. For more information about the AHE, consult http://www.open.ac.uk/socialsciences/hetecon/2006conference_middle.htm

The Socionomic Theory of Finance and the Institution of Social Mood: Pareto and the Sociology of Instinct and Rationalization

Wayne D. Parker, *Socionomics Foundation, Gainesville, Georgia USA and Emory University School of Medicine, Atlanta, Georgia USA;*
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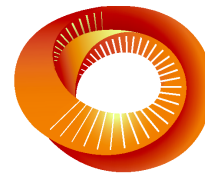
Abstract

Socionomics is a theory of human social behavior describing the causal relationship between social mood and social action. In finance theory, socionomics offers a new heterodox alternative to neoclassicism. The main principles of socionomics are that in human, self-organized complex systems, the following statements apply: 1) Shared unconscious impulses to herd in contexts of uncertainty lead to the emergence of mass psychological dynamics that manifest as social mood trends; 2) These social mood trends conform to hierarchical fractal patterns that take a repetitive, self-affine form and are therefore probabilistically predictable; 3) These patterns of aggregate behavior are form-determined due to endogenous processes rather than mechanistically determined by exogenous causes; and 4) These social mood trends determine the character of social actions and are their underlying cause, both in financial markets and in other domains.

Socionomics posits that because contextual differences between economics and finance evoke different behavioral dynamics, the law of supply and demand, which is central to economics, is not applicable to finance. In finance, uncertainty about valuations by other homogeneous agents serves as the context for unconscious, non-rational herding, which follows endogenously regulated fluctuations in social mood that in turn determine financial fluctuations.

Aspects of socionomic theory echo Pareto's little-known sociological theory of residues and derivations. This paper explores similar ideas in socionomic theory about the relationship between unconscious instincts, mediated by the limbic system, and rationalizations for the resulting social behavior, which are cortically mediated. Pareto's postulation of an innate human instinct toward "sociability" is related to

the socionomic conceptualization of a herding instinct (Pareto called such instincts "residues"), while his concept of mental "derivations," the methods by which people justify their behavior, is related to socionomic theory regarding the role of rationalization in financial behavior. The role played by instinct and rationalization in the socionomic model of endogenous causality in an aggregate system of homogeneous agents differs both from the neoclassical theory of finance and from models of herding from other disciplines that invoke an assumption of heterogeneous agents and/or exogenous causality.



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Members of the Socionomics Foundation and Socionomics Institute, following a meeting on exploring common goals (l to r): Jennifer Boyd, David Register, Wayne Gorman, Pete Kendall, Gordon Graham, Dave Allman, Dr. Wayne D. Parker, Mark Almand, Janice Barrett, Wendy Raffel, Robert R. Prechter, Jr., Brett Heckman, Deepak Goel, Diane Gray.

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