

# **COULD THIS DECADE BE THE NEXT 1930S? A REVIEW OF WORLD STOCK MARKETS IN THE 1920S**

**Bryan Taylor**

The bear market of 2000 and 2001 has produced the largest declines in the stock market since the 1970s. The Nasdaq declined over 70% from its highs in March 2000 until the lows of September 2001, and the Internet Bubble has clearly popped. Emerging markets have yet to recover from the highs they reached in 1993, and Japan spent the entire 1990s in a downtrend. Does Japan show us the fate of the world's stock markets in the coming decade? After two decades in which stock markets turned in their best performances in history, are we about to see a decade in which stock markets are at their worst?

This article will try to answer this question by analyzing the decline of global stock markets in the 1930s. It will also try and determine what caused the stock market crash of the 1930s and see whether similar conditions exist today.

## **1929: Ursa Major**

One of the biggest games on Wall Street is to compare the current market situation to 1929 or 1987. The bubble has burst. The lemmings are rushing in, and all those people in mutual funds will never get out alive. But is the current market like 1929? The problem with these analogies is that very few people actually understand what happened in 1929 because they have only looked at the United States stock market. Almost no one has looked at the big picture, specifically, how the world's stock markets behaved in the 1920s and 1930s. What happened in London? In Paris? In Tokyo? In Berlin? Could you tell someone if they asked you? This article will review what happened in the world's stock markets during the 1920s and the 1930s.

Everyone knows about 1929. That was the year the market crashed. The real crash. Not that fake crash in 1987, but the real thing that led to the Great Depression. People jumped out of

windows. Investors went bankrupt. And were it not for Franklin Roosevelt, civilization as we know it would have come to an end. Was 1929 really that bad? Yes. In 1929, Wall Street was the most important stock market in the world, and its 86.2% decline between September 1929 and June 1932 is still remembered today.

But the United States isn't the only country in the world. What happened in the rest of the world? Did foreign stock markets scream upward as the bubble in stocks grew larger and larger, then collapse afterwards? How much did other stock markets decline during the 1929-1932 bear market? The sad fact is that until now, no one has ever asked and answered these questions. Here's a summary of some of our findings on these questions:

1. For the many stock markets, 1929 represented a rally within a downtrend. Most countries, whose economies were tied to Germany economically, saw their markets top in 1920, not 1929.

2. The most spectacular rise in stock values during the bull market of the 1920s came in Germany, primarily because of its recover from the hyperinflation of the early 1920s. Both Belgium and France had larger bull market rallies than the United States had.

3. Of all the world's stock markets, the United States had the largest stock market decline after 1929. This is why the 1929 crash is remembered so well in the United States.

4. In many countries, the major stock market price indices did not recover their 1929 highs until the 1950s. On a total return basis, US investors did not break even on their investments until 1945.

5. For some countries, the 1929-1932 bear market was not the worst one in history. Germany's stock market fell by over 97% during the hyperinflation of 1922, and London's decline in 1973-1974 was worse than the decline in 1929-1932.

## The 1922-1929 Bull Market

World War I set the global economic conditions for the next twenty years in the global economy. Following World War I, there was political and economic chaos. The boom that followed World War I proved short lived, as deflation and recession followed the end of World War I. Politicians failed to sort matters out at Versailles, the Brussels Conference of 1920, the Genoa Conference of 1922 and other international meetings. The result was a world-wide recession in 1921 and hyperinflation in Germany 1922 and 1923 and other European countries.

Country	Market Bottom	Market Top	Percent Increase
Germany	November 1922	June 1928	1088.7%
France	April 1922	February 1929	417.2%
Belgium	May 1921	June 1928	404.3%
United States	August 1921	September 1929	394.0%
Poland	May 1926	April 1928	374.3%
Canada	August 1921	September 1929	299.8%
Australia	December 1916	February 1929	196.1%
Sweden	March 1922	January 1929	183.2%
Switzerland	December 1921	September 1928	165.1%
Czechoslovakia	October 1922	March 1929	147.9%
Italy	July 1921	February 1925	134.6%
Spain	November 1920	February 1928	131.7%
South Africa Industrials	April 1922	September 1929	130.8%
South Africa Gold	June 1921	March 1927	112.0%
United Kingdom	October 1921	September 1929	73.2%
Netherlands	July 1924	July 1929	55.0%
Austria	December 1925	November 1928	53.4%
Denmark	September 1922	February 1925	44.5%
Norway	February 1922	October 1924	34.0%
Japan	December 1923	July 1926	28.7%
India	September 1925	November 1927	18.0%

Few people realize that between 1920 and 1922 most world stock markets crashed, in some cases, more spectacularly than in 1929-1932. The difference between 1922 and 1929 is that

stock markets soon recovered. In 1922, the tide began to turn. Most stock markets bottomed out and began the bull market that would last until the United States stock market topped in September of 1929 and crashed in October of 1929.

How big was the bull market that led to the 1929 crash? The table above provides data on 20 different countries. The table above shows the month in which each stock market hit its low in the early 1920s, the month in which the bull market ended in the late 1920s, and the percentage increase in that country's stock market during the bull market. Unless otherwise noted, all data are for price indices and exclude the impact of dividends.

Now, let's analyze one of the most famous bull markets from a global perspective. Not all the stock markets behaved the same, but to help understand the behavior of markets throughout the world, we have divided the world's stock markets into four categories.

1. Bubble markets that rose and crashed spectacularly, such as the United States.
2. European countries, especially former members of the Latin Monetary Union, that participated in the 1920s stock market boom, then crashed in the 1930s.
3. Northern European countries that were tied to Germany's economy, and the United Kingdom that failed to participate in the 1920s boom. In these countries the 1929 high was below the high that their national stock markets had registered in 1920.
4. Markets outside of Europe that did not participate in the boom and crash that followed.

First, there were the bubble markets that rose and crashed spectacularly. The United States bull market of the 1920s has been studied numerous times, so there is no need to go into detail on the US stock market other than to establish the United States as a benchmark with which to compare other stock markets. During the 1920s, a plethora of new products flooded the American market, providing increased earnings and growth for numerous new industries, including automobiles, movies, radio, and electric utilities. With Europe in chaos, much of the money remained in the United States. As we all know, the bubble fed on itself until it burst in 1929. A partial recovery ensued in 1930, but then it was straight down. The S&P Composite price index fell by 86.2% between September 1929 and June 1932. It wasn't until 1954 that the

S&P Composite passed its September 1929 levels—a 25-year wait. Even on a total return basis, the S&P Composite didn't recover back to its 1929 levels until 1945.

Second, there were the European economies that posted new highs in 1929. Surprisingly, only four European countries achieved new, all-time highs on their stock market's indices in 1929: Belgium, France, Italy and Spain. None of these four countries suffered economically from the reparations and other war-related costs which were imposed upon Germany, nor were their economies dependent on Germany's. In fact, both the French and Belgian stock markets did quite well during the 1920s, increasing by over 400%. But these two stock markets were also among the worse performers in the bear market that followed, in part due to their overvaluation.

Country	Market Top Date	High Over 1929	Decline From Top	Recovery Date
Austria	January 1924	45.4%	79.4%	July 1959
Czechoslovakia	February 1920	45.3%	76.7%	September 1940
Denmark	1918	48.0%	68.5%	January 1960
Germany	May 1918	68.7%	89.9%	August 1951
India	July 1920	50.6%	73.3%	November 1945
Japan	January 1920	49.0%	73.9%	February 1948
Netherlands	May 1920	42.3%	86.4%	July 1955
Norway	May 1918	62.5%	81.3%	February 1951
Poland	July 1923	79.1%	96.9%	
Sweden	April 1917	26.4%	81.9%	May 1954
Switzerland	1910	7.2%	64.0%	May 1946
United Kingdom	February 1900	1.1%	52.8%	May 1954

Third, there were the northern European economies that were tied in one way or another to Germany. Without exception, these countries' stock markets failed to reach a new high in the bull market of the late 1920s. None of them recovered from the collapse in their stock markets that

occurred in 1921 and 1922. The combination of war reparations, political chaos, hyperinflation, and other economic problems prevented a full recovery from occurring in the 1920s.

But wait! If you look at the table on the previous page, Germany's stock market had the strongest recovery of any stock market in the world. However, these figures are deceptive. The strong recovery only reflected how much the hyperinflation of 1922 and 1923 devastated German financial assets. In real terms, between May 1918 and November 1922, German shares declined by 97%, a collapse even worse than that which occurred in the United States between 1929 and 1932. Even with a tenfold recovery between 1922 and 1929, the German stock index was still 29.6% below its level in May 1918.

Those countries that had their economies tied to Germany suffered similar, if less onerous fates in the 1920s. The 1929 rally was a rally within a downtrend, not a bubble that burst. The table above shows the behavior of these countries' stock markets, showing the month for which each stock market hit its high, how much the 1929 peak was below the all-time high in 1920 or earlier, and how long it was before the stock market price index overtook its historic peak.

For both Switzerland and the United Kingdom, the 1929 peak was more in the nature of a double top than a rally within a downtrend. The London stock market was in a secular bear market from 1900 until 1921, and even though the market rallied strongly in the 1920s, it still failed to overtake the 1900 highs.

It should be noted, however, that all of the comparisons above are based upon price indices rather than total return indices because of the lack of information on dividends in the 1920s. If total return indices are used, the results are quite different. Using the United Kingdom as an example, including dividends, the London stock market made no progress between 1899 and 1917 rather than suffering significant declines. On a total return basis, the London stock market recovered to its 1929 top by the end of 1934, even though the price index didn't return to its 1929 levels until 1954. On a total return basis, Japan recovered its losses by 1932, Germany by 1937, and France by 1941. Although the results are not as bad on a total return basis, it still shows that investors had to wait a decade or more to recover from the effects of the market crash of the 1930s.

In the final category, there is South Africa and Australia. Both countries' stock markets suffered declines of 40% to 50% during the 1929-1932 bear market, and then recovered quickly. For these two countries, the decline that followed 1929, though sharp, was more of a correction within a continuing bull market. South Africa's stock market had recovered its 1929 highs by 1933 and Australia by 1934.

## **The 1929-1932 Bear Market**

So how bad was the bear market? Very bad, unless you were short. In fact, the only other world-wide bear markets comparable to the 1929-1932 bear in this century were the 1920-1922 and the 1973-1974 bear markets. To show you the impact of the 1929-1932 bear market, the table on the next page summarizes the impact of Ursa Major on 20 different countries, listing the world's stock markets from the market with the largest decline to the smallest. We have shown the month of the market's top, the month of the market's bottom, the percent that the market declined, and the recovery date, which tells you how long investors who bought at the top of the bull market would have had to wait until they got their principal back.

The table below should leave no doubt as to why 1929 leaves such a bad memory in American investors' psyches. Of all the world's stock markets, the United States had the largest decline. It should be remembered that it wasn't just the crash of October 1929 that did investors in, but the long, continuous decline that occurred from mid-1930 until the summer of 1932. It should come as no surprise that the markets that had the largest bull markets in the 1920s also had the largest declines in the bear markets that ensued. The United States, Belgium, Canada and Poland all had bull market runs of over 300%, and subsequently declined by over 80%. Many markets had their worst declines in history and shook investors' faith in markets for decades.

Country	Market Top	Market Bottom	Percent Decline	Recovery Date
United States	September 1929	June 1932	86.2%	September 1954
Poland	April 1928	June 1932	85.1%	
Belgium	June 1928	March 1935	82.5%	December 1941
Canada	September 1929	June 1932	80.1%	November 1954
Netherlands	July 1929	June 1932	76.4%	September 1941
Sweden	January 1929	May 1932	75.4%	November 1950
France	February 1929	August 1936	75.0%	April 1941
Italy	February 1925	May 1932	72.9%	June 1941
Germany	June 1928	April 1932	67.7%	February 1942
Austria	November 1928	December 1933	62.3%	June 1954
Switzerland	September 1928	May 1932	61.2%	January 1946
Spain	February 1928	July 1936	60.6%	May 1946
Czechoslovakia	February 1925	June 1932	57.4%	March 1937
United Kingdom	September 1929	June 1932	52.3%	May 1954
S. Africa Gold	March 1927	March 1930	51.9%	January 1933
Norway	October 1924	June 1932	50.1%	December 1935
Japan	July 1926	October 1931	48.9%	May 1933
Australia	February 1929	August 1931	46.3%	October 1934
India	November 1926	June 1932	45.9%	October 1934
S. Africa Industry	September 1929	December 1932	42.1%	October 1933
Denmark	February 1925	June 1932	39.4%	August 1935

This evidence shows that mega-bulls produce mega-bears. The best performers in the 1920s became the worst performers in the bear market of 1929-1932. Investors in the United States had to wait until 1945 before they would have gotten their money back on a total return

basis. The United States and Canada have never had a bear market as bad as the one in the 1930s.

The Germany-related stock markets, which were already in downtrends in the 1920s, had smaller declines than the markets that led the 1920s bull market, but their overall decline from their 1920 highs remained substantial. The only markets that came out of the 1929-1932 bear market relatively unscathed were South Africa and Australia. Not only did these markets have smaller declines, but they were among the first to recover their 1929 highs. South Africa Gold shares moved countercyclically to the bear market, topping two-and-a-half years before New York did, and bottoming only six months after the crash. By 1934, South Africa, Australia and Japan had all recovered their highs of the 1920s, primarily because these economies were based more on raw materials, than on industrials, and because their economies were not as closely tied to the United States and Europe as the other countries we have looked at.

Although the tops in different countries' stock markets were spread out over 1928 and 1929, the bottom in the bear market can be pinpointed rather closely: May and June of 1932. Only Belgium, France (after the election of the Popular Front in 1936) and Spain (due to the Spanish civil war) were to sell off to lower lows after the 1932 bottom.

## **The Five Criteria**

There are five factors that can cause Ursa Majors

1. Economic declines
2. Political chaos
3. Speculative blow-offs
4. High inflation, hyperinflations or deflations, and
5. The culmination of secular tops that build up in the world's stock markets over time.

Any one of these factors can cause a bear market, but when these factors occur together, their impact on stock market values can be devastating, as history has shown.

The 1920-1922 bear was a combination of economic decline, political chaos and inflation exploding in the countries that had participated in World War I. Germany saw its stock market decline by over 97% in this bear market. Most stock market price indices in northern Europe never recovered their 1920 market highs until the 1940s. Both 1920 and 1929 were the beginnings of severe economic depressions that led to double-digit levels of unemployment in most countries. The hyperinflations of the early 1920s that accompanied the economic collapse of Europe only worsened matters.

One important point which this article has tried to make, and which few people have recognized, is that although the 1929 bull market rally was a bubble in the United States which ultimately burst, this was not true of stock markets in the rest of the world. If anything, 1929 was the final rally within a secular top that had been building in world stock markets since the end of World War I.

The decades between World War I and World War II were fraught with economic and political crises, making any sustained market recovery almost impossible. Nations could not agree on their political differences, the United States preferred isolationism, and no world-wide economic system was created to replace the Gold Standard. It wasn't until the establishment of Bretton Woods, and the stabilization of currencies in 1948-1949 that the foundations were laid for a stable economic environment in which economies could grow and stock markets could once again rise steadily in value.

A similar, though less dramatic situation occurred in the 1960s. As inflation began building up in the world's economies, and the Bretton Woods system began breaking down, a long secular top began building in the world's stock markets between 1962 and 1973. Stock markets in France, Switzerland and Austria failed to overtake their 1962 highs until the 1980s, and the United States hit its high in 1966, and faltered for the next 16 years, declining in real terms between 1966 and 1982 by 75%.

For some stock markets, 1971-1973 was the final blow-off with Japan and Hong Kong rising the most spectacularly. In Hong Kong, the Hang Seng index rose 880% between 1971 and February of 1973, only to collapse 91.5% by the end of 1974. Even though the Japanese stock

market rallied strongly, few people realize how much Japanese stock market equity had been devastated by the post-World War II inflation.

Both the 1929-1932 and the 1973-1974 bear markets ended secular tops which had been building in the world's stock markets for a decade. The 1971-1972 rallies which occurred in Japan and Hong Kong were just as dramatic as the 1929 bull market rally had been on Wall Street, and an indication that the end of the bull market which had begun back in the 1940s was finally coming to an end.

## **Japan in the 1990s**

While the rest of the world's stock markets enjoyed some of their best bull runs in history, the Japanese stock market, along with the Japanese economy, stagnated in the 1990s; however, the Nikkei 225 index and the Dow Jones Industrial Average had both been at similar levels in 1957. By the end of 1990, the Nikkei was at almost 39,000 and the Dow Jones Industrials was at 2750. By September of 2001, both indices were at similar levels.

Why did Japan perform so poorly in the 1990s? If you look at the five criteria listed above, they apply to Japan during the 1990s to a reasonable degree. First, Japan has suffered four recessions since 1990 causing its rate of growth to slow considerably below that of the 1950s through 1980s. Second, although Japan has not fallen into political chaos, it has failed to find a strong leader that can redirect the economy. Japanese leaders come and go, but none of them has been able to defeat the bureaucracy that still meddles in the country's affairs. Third, Japan did suffer a spectacular blow-off top. The Nikkei was at 2300 in 1969, 6500 in 1979 and 38,000 in 1989. The speculative bubble extended to all assets in Japan. In theory, the grounds of the royal palace in Tokyo were worth more than the entire state of California by 1989! Fourth, Japan has suffered deflation within its economies, as occurred in the 1930s. Deflation and hyperinflation often produce bear market conditions. The Japanese banking system remains in terrible shape ten years after the financial bubble burst.

Given all of these facts, it is understandable why the Japanese economy and stock market underperformed in the 1990s. Is this the fate of the rest of the world in the coming decade?

## **Could This Decade Repeat the 1930s?**

Now, let's go back and try to answer our original question. Are we facing another decade similar to the 1930s? The stock market crash of 1929 did not cause the Great Depression. This is why the stock market crash in 1987 was not followed by a second depression. What caused the spectacular crash in stock market prices in the early 1930s was the continuous slide in the American economy and the rest of the world as trade, industrial output, the banking system and other pillars of the economy gradually collapsed.

The reason 1987 did not lead to an Ursa Major of the 1929-1932 variety, despite the similarities between 1987 and 1929, is that none of the five factors discussed above was present in the world's stock markets in 1987 and after. There was no political or economic crisis that would undo confidence in financial markets, no inflation that was building up. If anything the world's stock markets were at the beginning of a bull market, not the end.

Although Wall Street pundits were quick to draw the analogies between October 1987 and October 1929, to my knowledge no one put world stock markets in their historical perspective. If they had, they would have realized how different 1987 was from 1929, not only in fundamental economic terms, but in terms of the world's stock markets as well. By no stretch of the imagination was 1987 at the conclusion of a secular top which had been building in the world's stock markets for a decade.

What reason do we have to believe that we could repeat the decade of the 1930s?

1. A spectacular stock market bubble has just burst, sending technology and other high-flying stocks reeling. The NASDAQ composite fell from a closing high of over 5000 in March 2000 to an intraday low below 1400 in September 2001, a decline of over 70%. 1999 was the best year in history for any stock market index in US history when the Nasdaq rose by 85%, only to be followed by a decline unparalleled since the 1930s.

2. World stock markets have all suffered large declines since the world market top in 2000. The MSCI World Stock Market Index fell by over 40% between March 2000 and September 2001, the worst decline in the World Index since the 1973-1974 bear market.
3. A number of world markets remain below the levels they were at years ago, replicating the situation in the 1920s in which some markets peaked at the beginning of the decade and others peaked at the end. The Taiwan and Japan stock markets have never returned to their highs of 1989, and the Korea stock market, despite rallies to the 1989 highs in its 1994 and 1999 remains below the 1989 levels. In 2001, Singapore's All-Share Price Index was at levels it had first reached in 1981. Finally, MSCI's Emerging Market Free Index has never returned to the highs it hit in 1993. This reminds us that not every market participated in the bull market of the 1990s

We should remember that no one can accurately predict the future. Very few economists or Wall Street pundits can even explain what happened in the past, so it is difficult to predict what is going to happen in the future. Predictions are based upon probabilities, not facts, so the question might be rephrased, does the market's current behavior portend a continual decline, or lack of recovery, in the market with a high probability in the near future?

First, could the current economic recession turn into a world depression? It should be remembered that stock markets in the 1930s did not decline of their own accord. There were collapses in financial markets, implosions in world trade, deflation and collapses in commodity prices, and other economic, financial and political problems. Although the world's economies are slowing down, and the world is likely to suffer the first decline in world GDP since the 1970s, the real question is how quickly can the world economy recover from the recession?

Although it is impossible to predict the future, it would be difficult to argue that the current situation bears any resemblance to the chaos of the 1920s and 1930s, or the inflationary explosions of the 1970s. The mistake that countries made in the 1930s was to create barriers to free trade and free markets that inhibited world recovery. On the positive side:

1. There is no sign of increases in protectionism or other factors that could inhibit world trade.

2. There are no signs of deflation or of inflation getting out of control that marked the 1920, 1930s and 1970s.
3. Financial markets remain free to reallocate capital throughout the world economies.
4. Central banks and governments are committed to doing what they can through fiscal and monetary stimulus to minimize the impact of the recession.

This makes the situation in the 2000s completely different from the situation in the 1930s. If anything, global markets in China, Russia and other countries are opening up. Whereas 1930 marked the passage of the Hawley-Smoot Tariff Act that raised American Tariffs, 2001 marked the admission of China and Taiwan to the World Trade Organization, adding one billion people to global free trade. Similarly, Europe has introduced a single currency to replace a dozen contending currencies, and Europe plans on expanding the size of the European Community in the future. Although the WTO, NAFTA and the EEC may not work as well as their participants may want, all of these multinational organizations remain committed to free trade.

Second, is the world falling into a period of political chaos? The answer to this would be a decided no. The reaction of global leaders to the terrorist attacks of September 11 shows how committed world leaders are to working together. There is nothing today that is comparable to the chaos of inter-war Europe, or the stranglehold imposed upon the developed countries by OPEC in the 1970s. Although there is the potential for conflict in Asia and the Middle East, or of future terrorist attacks, it seems unlikely these could generate the slide into global war that occurred in the 1930s.

Third, have the world's stock markets suffered a speculative blow off? This is the most compelling of the five criteria. Technology markets went through one of the most spectacular bubbles in history. NASDAQ and other technology-oriented indices are down over 50% and are unlikely to recover for some time to come.

It may take the rest of the decade, or longer, before NASDAQ recovers to the levels it reached in 2000. It should be noted that the S&P Utilities Price Index in 1985 was still below the levels it had reached in 1929! The Internet stocks that lost 99% of their value will never recover.

Other successful stocks will have to replace these bankrupt companies in order to bring NASDAQ back above 5000.

Although it is certainly possible that the NASDAQ in 2010 could be no higher than it was in 2000, it is difficult to believe that the US market as a whole will be unable to recover to the levels it reached in 2000 unless a collapse similar to what happened in NASDAQ occurs in the rest of the economy. One thing is certain, it will be a long time before the world's stock markets will repeat their performance in the 1980s and the 1990s. This is because in both decades both earnings and Price/Earnings ratios doubled, producing a 16-fold increase in stock prices. Although it may be decades before similar returns are repeated, there is no reason to believe that earnings could not double in the current decade leading to a doubling in stock market prices.

Fourth, is inflation or deflation a problem in the world's economies? One difference between the bear markets of 1920-1922 and 1973-1974 and the bear market of 1929-1932 was that the first two were accompanied by inflation while the 1930s bear was accompanied by deflation. Similarly, the collapse in Japanese stocks in the 1990s has been accompanied by deflation. These facts should provide us with an important caution about how economic behavior can go awry. Today, both the Federal Reserve and the European Central Bank remain committed to fighting both inflation and deflation within the world economy. There is currently no evidence that the world should worry about inflation or deflation preventing growth within the world's economy.

Fifth, are the world's stock markets near the end of a long, secular top as occurred in the 1920s and 1960s? This is a possibility. Emerging markets and East Asian markets performed poorly in the 1990s after spectacular rises in the 1980s. Could they be similar to the northern European markets that failed to participate in the boom of the 1920s? It should be remembered that the failure of northern European stock markets to participate in the boom of the 1920s in no way caused the decline of the 1930s. It is reasonable to assume that a similar lack of causation could be found between Emerging and Asian markets in the 1990s and American and European markets in the 2000s.

Finally, Singapore provides an interesting example of the divorce between financial and economic markets. Despite the fact that the Singapore stock market remains below the peaks of 1982, the economy has grown six-fold in the 20 years since then.

## **Conclusion**

No one can predict the future in financial markets.

In reviewing the five factors that contributed to the stock market collapse of the 1930s and their similarity to the market of the 2000s, it is primarily the technical behavior of stock markets that raises concern. The decline of over 40% in the MSCI World Index is the greatest since the 1973-1974 bear market. Declines in the stock market do not cause economic recessions and depressions, as the 1987 crash proved. The collapse in stocks in the 1930s resulted from the collapse in the economy. This occurred because of the failure of government fiscal and monetary policy to prevent the economy from sliding into the depression, and because of the inability of governments to prevent the political chaos and war that led to World War I. Governments could not agree on measures that would encourage free trade and free markets, but instead prevented markets from working properly. The result was the Great Depression.

The fact that the primary source of concern is technical—price behavior in the stock market—and not fundamental economic and financial problems should be a cause of relief. Let us hope that we have learned the lessons of the Great Depression, and the government is able to prevent any attempts to set up new barriers to trade. The degree of cooperation among Central Banks following September 11, the opening up of new WTO talks in Qatar, the admission of China to the WTO all point to a different attitude toward economic trade and markets that existed in the 1930s.

Economic problems create problems in the stock market and not vice versa. As long as more fundamental economic and financial problems don't creep up within the economy, there is no reason to believe why the current decline should not be a normal bear market from which the markets can soon recover.