

America's sharemarket: an "extraordinary popular delusion"?

3 April 1999

Dear Editor,

When the Dow Jones index first reached the 10,000 mark, a Wall Street "analyst" appeared on the national television news enthusing that: "This is magic--this is America!"

The magic was short-lived. The Dow dipped, rose a little, then plunged. After flirting with the "magic" again last week, the Dow finally closed over 10,000, and the pundits were ecstatic.

The real significance of the Dow Jones Industrial Average has never, to my knowledge, been explained via the mass electronic media. One has to search the financial pages to find any printed information that can give any perspective to the hype and hoopla of these sensationalist reports.

A revealing article did appear in the *Sydney Morning Herald* of March 22. Written by Brian Hale from Wall Street, it exploded a myth surrounding the 10,000 level. Headed, "For America's humbler stocks, price falls are worse than in '87," the article explained that the Dow Jones Average (which refers to the top 30 US companies) has soared because "the correction-turned-bear market" has driven up the level of these top companies, as investors discard the "humbler stocks".

Hale states: "Wall Street could drive the big-stock indices still higher unless they, too, fall into the **black hole** (my emphasis) that is sucking up most of the US sharemarket." He gives specific examples to support his claim. "On Thursday (March 18) when the Dow came the closest yet to closing above 10,000 points, trading in Dow stocks accounted for less than 5 percent of total market volume; more share prices were falling or standing still than rising and the number of stocks sinking to 52-week lows easily outnumbered those scoring highs."

Hales reports that only 11 stocks within the Dow were trading around their highs, half the stocks within

the S&P 500 had dropped 20 percent or more from their highs, and the average decline on the S&P index was 21.3 percent. He notes that Nasdaq index stocks had fallen by an average of 41 percent from their 52-week highs and New York Stock Exchange stocks by 33 percent, with the smallest companies suffering the worst falls.

"For the 5,571 stocks with market caps under US\$250 million, the average tumble from 52-week highs is 50 percent ... To put it in context, the average share price in that ... bracket has now fallen further than it did in the 1987 market crash or the 1990 bear market and the other brackets are not that far behind."

Unfortunately, despite the factual content of Hale's article, it too is sucked into a "black hole" when he fails to explain why "things are seriously amiss". All he can do is state that: "Given all this, the mood on Wall Street is not jubilant and there's even a growing cattiness because it's not just the uninformed journalists who are looking no further than the index on the end of their noses and raving about the market's 'strength'."

At the end of his piece he refers to another analyst, Barton Briggs of Morgan Stanley, saying that Briggs seems to think that: "It's all connected with America's need for instant gratification--sports fans and market fans want instant and continuous action." Then Hales quotes Briggs as follows: "The history of financial markets is that maniacs, **extraordinary popular delusions** and **the madness of crowds** end in tears, not because the world doesn't progress but because **human nature** doesn't change". (my emphases)

Anyone familiar with the ossified intellects of bourgeois columnists and writers, as they explain "human nature" as the reason behind everything from stockmarket crashes to wars, will not be surprised by these comments, but to plagiarise the title of a book written over 150 years ago is a bit over the top.

Memoirs of Extraordinary Popular Delusions was published in 1841, and the second edition, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds* in 1852, written by Charles Mackay, a Scottish journalist who became editor of the *Illustrated London News*.

The first two chapters specifically related to shares, but they dealt with events that occurred nearly 150 years before the book was written. Mackay described the Mississippi Scheme of 1719-1720, which was an attempt to solve the national debt crisis of France caused by the extravagance of Louis XIV, an expression of the decay of feudalism. His next chapter dealt with the "South Sea Bubble", describing the attempt to restore public credit in England under George I, one again an expression of feudalism holding emerging capitalism in a straitjacket.

Both of the schemes collapsed. Mackay, not unlike Hale, gave a detailed account of what happened. But Mackay, unlike Hale, gave his own explanation, and much more poetically: "Enterprise, like Icarus, had soared too high, and melted the wax of her wings; like Icarus she had fallen into a sea, and learned, while floundering in its waves, that her proper element was the solid ground." (Charles Mackay, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, Wordsworth, Ware, Hertfordshire 1995, p.88)

Charles Mackay was a contemporary of Karl Marx, but he had obviously not read Marx, or, if he had, did not agree with a materialist analysis. Am I drawing too long a bow by comparing the writings of two journalists who lived 150 years apart? I don't think so. The organic contradictions of capitalism still remain, the only difference being that the embryo as described by Mackay in the early 1700s has become a putrescent, diseased, gluttonous, parasitic monster leeching on the lives of millions of workers.

And is the American sharemarket simply "an extraordinary popular delusion"? Of course not. It's a phenomenon that can be scientifically explained, and in this regard I always look forward to information from one of your outstanding economic analysts.

Finally, Brian Hale, and the other Wall Street journalists, might find other sections of Charles Mackay's book instructive. I recommend the chapters headed "The Alchemists", "Modern Prophecies", "Fortune Telling" and particularly "Popular Admiration

of Great Thieves".

Yours faithfully,

RW



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