Funding the Future

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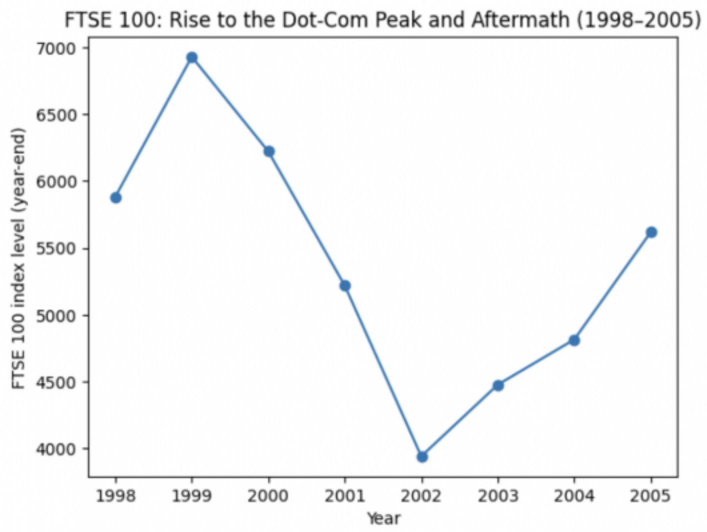
The mantra of the late 1990s was that markets always go up in the long run. It was wrong then, and it is wrong now.

The FTSE 100 reached what was then its all-time high at the very end of 1999, during the height of the dot-com boom. What followed is a useful reminder of how fragile market confidence really is and why markets are a poor guide for economic policy.

The FTSE 100 closed on 30 December 1999 at around 6,930.



At the end of 1998, the index stood at roughly 5,880. In just twelve months, it rose by about 1,050 points, an increase of around 18 per cent.

This was not driven by a transformation in productive capacity, wages, or public investment. It was driven by:

* Speculative optimism.
* Easy credit.
* The belief that technology stocks had abolished risk, and
* The widespread assumption that markets were efficient and self-correcting.

None of those claims turned out to be true.

From the December 1999 peak, the FTSE 100 entered a prolonged decline.

By March 2003, the index had fallen to around 3,300.

That represents:

* A fall of around 3,600 points, and
* A loss of just over 50 per cent of market value from the peak.

This was not a brief correction. It was a grinding, multi-year collapse that wiped out paper wealth, pension values, and investor confidence. And crucially, it took more than a decade for the FTSE 100 to convincingly exceed its 1999 level again.

The chart noted above tracks the FTSE 100 from 1998 to 2005, using year-end levels. There are three very clear phases:

* The sharp rise into the 1999 peak,
* The steep collapse between 2000 and 2002, and
* The slow, hesitant recovery that followed.

Even by the end of 2005, the index was still well below its 1999 high.

This matters because it exposes some fundamental myths:

* First, markets are not reliable long-term allocators of capital. They swing between euphoria and panic, amplifying risk rather than managing it.
* Second, pension security cannot sensibly be built on the assumption that equity markets will always deliver steady growth. Millions of people retiring in the early 2000s discovered this the hard way, but as a society, we have still not learned the lesson, although business has, by closing defined benefit pension schemes and passing the risk onto employees.
* Third, governments that tie fiscal policy to “market confidence” are surrendering economic management to a system that repeatedly proves itself unstable.
* And finally, growth in asset prices is not the same thing as economic progress. The late-1990s boom left little lasting benefit for productivity, resilience, or social well-being, but its collapse imposed very real costs.

The lesson is simple. Markets are a tool, not a guide. When we mistake speculative price movements for economic success, we repeat the same errors again and again. And that is what we are doing now.

Tickets are now on sale for the **Funding the Future live event in Cambridge** on 28 February. **Tickets and details are available here**.

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