

Are We Chasing Tulips?

We have all witnessed a real-estate bubble, the stock market bubbles and the dot-com bubble, just to name a few.

In each instance when these bubbles burst people stood around afterwards and said; "What were we thinking?"

In 1593 tulips were brought from Turkey and introduced to the Dutch. The novelty of the new flower made it widely sought after and therefore fairly pricey. Everyone began to deal in bulbs, essentially speculating on the tulip market, which was believed to have no limits.

The phenomenon has since developed a nickname; 'tulip mania'.

It was a period during the Dutch Golden Age. At the peak of tulip mania, in February 1637, some tulips sold for more than 10 times the annual income of a skilled craftsmen. It is understood that this was the first recorded speculative bubble or perhaps the first 'commodities boom,' although this is disputed by some.

Now the term 'tulip mania' is often used metaphorically to refer to any large economic bubble, which is when asset prices deviate from intrinsic values.

It is said that the height of the bubble was reached in the winter of 1636–37. Tulip traders were making fortunes. A trader could make up to \$61 000 adjusted to current prices per month. With these type of profits to be had, who could say no? There was nothing local governments could do to stop the trading frenzy.

Then one day, like that of a male teenager waking from a lucid dream, a buyer failed to show up and pay for his bulb. The dye



A Satire of Tulip Mania by Brueghel the Younger (ca. 1640) depicts speculators as brainless monkeys in contemporary upper-class dress. In a commentary on the economic folly, one monkey urinates on the previously valuable plants, others appear in debtor's court and one is carried to the grave.

was cast and the teenager woke from his dream. The price went from straight up to straight down as panic spread across Holland, and within days tulips were worth only a hundredth of their former prices. The dream was over and the bubble had burst.

It is easy for us to sit in our ivory towers and laugh at these foolish Dutch, paying such prices for simple tulips, but it was not the last time that we witnessed such an economic bubble. No doubt we will witness another.

We still do the same sorts of things today. Human beings have always been prone to want things rare and tucked away

deep in the ground. Things that are not easy to get. This is especially the case if everyone else wants whatever it may be.

Insane 'groupthink' or nutty behaviour becomes conventional when enough people are following along. It's only afterwards that we come to our senses and wonder what were we thinking.

So it might be wise to remember that the first rule of economic speculation is 'DON'T PANIC' and the second rule is 'PANIC FIRST'. ■

