Tulipomania (Netherlands: 1623-1637)

The tulip was introduced to Europe in the 16th century from the Ottoman Empire. These flowers were particularly popular in the Netherlands as a status symbol where there was competition among the upper classes for rare tulip bulbs.

**NOTE:** In his *Theory of the Leisure Class* (1899) Thorstein Veblen describes the practice of consuming far beyond one's needs as a display of wealth, power, & success as conspicuous consumption.

In 1623, although the average Dutch income was 150 florins/year, a single tulip bulb could cost as much as a thousand florins and could be bartered for land, livestock, & other commodities. It was possible that a successful bulb trader could earn as much as 60,000 florins/month!

In 1635, a sale of 40 bulbs for 100,000 florins was recorded. In this year, a ton of butter sells for 100 florins and "eight fat swine" for 240 florins.

In 1636, tulips were traded on stock exchanges of various Dutch towns and cities. These exchanges allow for tulip trading by all levels of society. Many people sell or trade their other possessions in order to speculate in the tulip market.

Some traders sold tulip bulbs that had only just been planted or those they intended to plant (i.e., tulip "seedlings"). This phenomenon was dubbed windhandel, or "wind trade." **NOTE:** In 1610, the state had enacted laws which would have made the practice of futures markets illegal; however, the law was not enforced.

In 1637 tulip traders could no longer get inflated prices for their bulbs, and they began to sell. People began to suspect that the demand for tulips could not last. As this notion spread, a panic developed. Some futures market speculators were left holding contracts to purchase tulips at prices now ten times greater than those on the open market. Meanwhile other investors found themselves in possession of bulbs now worth a mere fraction of the price they had paid. It was reported that thousands of Dutch investors were financially ruined by the experience. Attempts were made to resolve the situation to the satisfaction of all parties, but these were unsuccessful. Ultimately, individuals were stuck with the bulbs they held at the end of the crash. No court would enforce payment of many contracts, since Dutch judges regarded the debts as contracted through gambling, and therefore not enforceable.

**Manias, Panics, & Crashes:** A History of Financial Crises by Charles P. Kindleberger – "Speculative manias gather speed through expansion of money and credit or perhaps, in some cases get started because of an initial expansion of money and credit. One can look back and see what went wrong. The tulipomania, part of speculative excitement over objects, was fattened on personal credit."

**Mean Markets & Lizard Brains:** How to Profit from the New Science of Irrationality by Terry Burnham "... financial bubbles have occurred in every society throughout history that has had markets. The most famous case is the seventeenth-century Dutch 'tulipomania.' In 1635, at the height of the speculative frenzy, the price for a single tulip bulb exceeded that of a nice house in Amsterdam."

**Mean Genes: From Sex to Money to Food:** Taming Our Primal Instincts by Terry Burnham & Jay Phelan "Looking across human cultures gives us a sense of what we're up against and shows us that gambling is universal... The universal love of gambling is just a small part of our general tendency to derive pleasure from taking risks."