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## **Tulip Mania: When Tulips Cost as Much as Houses**

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Crypto currencies and especially Bitcoin are the talk of the town of late. According to Consumer News and Business Channel, the price of a single bitcoin has gone up at a faster pace than any other speculative vehicle in market history, as investor enthusiasm for the new medium has reached a fever pitch. Some have likened the Bitcoin craze to Tulip Mania, believing that the bubble is getting ready to burst.

Aside from the Bitcoin bubble, there have been a lot of economic bubbles and subsequent crashes over the years such as, the dot com bubble, the stock-market bubble, the real-estate bubble, but one you may have never heard of is the Tulip Bulb Market Bubble of 17th century Netherlands. Tulip mania is a perfect example of a cautionary tale of price speculation in what is widely regarded as the first recorded financial bubble and crash of all time [1].

### *The Roots of Tulip Mania*

So, what is the story with the tulip mania? Well, as some may be aware, the tulip is a national symbol of the Netherlands. The country is affectionately known by some as *the flower shop of the world*. The Dutch people even took their love of tulips abroad when emigrating from their homeland, starting up tulip festivals in places like New York and in the town aptly named Holland located in the U.S. state of Michigan.

Despite this near obsession with tulips, the flower is not native to the Netherlands. They are actually native to the Pamir

and Tan Shan mountain ranges. They were brought to the Netherlands in the late-16th century from the Ottoman Empire. A botanist by the name of Carolus Clusius who in the 1590s had begun an important botanical garden at the University of Leiden, was one of the first to really pioneer the cultivation of tulips in the Netherlands. He had his own private garden in which he planted numerous bright and beautiful tulips and devoted much of his later life to studying the tulip and the mysterious phenomenon known as tulip breaking. Tulip breaking is key to the story of the tulip mania. It was a strange occurrence in which the petal colors of the flower suddenly changed into multicolored patterns. Many years later it turned out that these strange looking tulips were actually the result of a virus that had infected them. Nonetheless, these essentially diseased multicolored tulips did nothing but serve to ramp up the tulip craze further [1]. The mesmerizing diseased tulips became even more valuable than the uninfected ones and Dutch botanists began to compete with each other to cultivate new hybrid and more beautiful varieties of tulips. These became known as *cultivars* and would be traded among a small group of botanists and other flower aficionados. As time passed, the trade grew out from the group and botanists began to receive requests from people they did not know for not only the flowers, but the bulbs and seeds in exchange for money.

Part of what helped this interest in Tulips grow, along with people's willingness to exchange money for them, was the fact that the Netherlands in the early part of the 1600s had become the richest country in Europe mostly through trade. During this Dutch Golden Age, not only were there aristocrats with money, but middle-class merchants, artisans and tradesmen also found themselves with extra coin burning a hole in their pockets. Basically, this meant more people were able to spend money on luxuries such as cultivars that perhaps

in other European countries would not have been commonplace.

Moreover, the Netherlands and specifically Amsterdam already had robust trading platforms. The Amsterdam Stock Exchange opened in 1602 and the Baltic Grain Trade, an informal futures market itself, had begun decades earlier. The Netherlands was therefore primed for a new trade, which was to become Tulip Mania [1].

#### *The Bubble*

By the 1620s, prices were already rising to incredible levels. One story in particular was of an entire townhouse offered in exchange for just 10 bulbs of the very special cultivar, Semper Augustus, that had petals that looked a bit like a candy cane.

That was only to be the crescendo, however, as the climax of tulip mania took place in Alkmaar at an auction shortly thereafter where cultivars Admirael van Enchuyzen sold for 4,230 florins and 5,200 florins, respectively. By the height of the tulip and bulb craze in 1637, everyone had got involved in the trade, rich and poor, aristocrats and plebes, even children had joined the party. Much of the trading was being done in bar rooms where alcohol was obviously involved. According to some reports, bulbs could change hands upwards of 10 times in one day. Prices skyrocketed at one point in 1637, increasing 1,100% in a month. In just over a month from 31 December 1636 to 3 February 1637, Switsers, a particularly popular bulb saw its price rise from 125 florins to 1500 florins [2].

#### *The Burst*

As is often the case with economic bubbles, as the price rose to a point where it was obviously so incredibly inflated, some prudent people decided to get out and capitalize on the absurd prices. Then a domino effect took place where more and more tried to sell at ever decreasing prices. The truth is that no

one is completely sure what led to the cataclysmic demise of the bulb trade, but what is certain was that it caused unmitigated pandemonium and widespread panic throughout the republic.

This is when parties involved began to stop honoring contracts. Needless to say, this was cause for much hubbub, as people realized they had bet their whole life savings or family homes on these tulip bulbs. The Dutch government even had to intervene to try to curb the fall, offering to honor contracts at 10% of the face value, however, this only worsened proceedings, as the price began to fall even farther until the bottom completely fell out.

Of course, this resulted in financial ruin for many, as the bulbs that they had paid so highly for were worth virtually nothing. Debt disputes went on for years and even those that were lucky enough to get out early were hurt later by the depression in the aftermath of the crash. The Dutch government passed the buck by making a feeble proclamation that the debts were to be settled by local city magistrates. Eventually the majority of the contracts were cancelled [2].

#### References:

1. Mode of access:

<https://www.focus-economics.com/blog/tulip-mania-dutch-market-bubble>. – Date of access: 19.03.2018.

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