

# Setting the Record Straight On Tulip Mania: How the mid-Seventeenth-century Phenomenon Occurred and it's Actual Effect on the Dutch Economy

Tulip Mania was a socio-economic phenomenon that occurred in the Netherlands in the 1630s. The Dutch came in contact with a brand new flower called the tulip. The tulip's bright colors and its novelty quickly made it a status symbol and a valuable commodity. A speculative market for the tulips grew and many Dutchmen became tulip traders. The market for tulips abruptly collapsed in 1637 and tulip mania died out. Tulip Mania has a reputation as an event that caused a financial collapse and ruined the Dutch domestic economy. Tulip Mania's lofty reputation is partially due to Charles Mackay's sensationalist account in his 1841 book *Extraordinary Popular Delusions and the Madness of Crowds*. Mackay inaccurately claimed that every member of Dutch society became ensnared in the mania and the resulting crash caused economic struggles for years to come. In reality, an unsustainable tulip market did exist but the levels of speculation and ill effects are blown out of proportion.

The Dutch were first introduced to tulips from the Holy Roman Empire via the Ottoman Empire. The Dutch began tulip cultivation in 1593. Part of the Spanish Netherlands achieved independence from Spain and established the Dutch republic. The newfound nation sought to establish itself as an economic force in Europe. In order to do so, the Dutch became involved in trade and exploration. The Dutch established a trading empire with influence in every corner of the world, particularly in southeast Asia. This trading empire made the tiny Dutch republic the wealthiest nation in Europe based on income per capita. As the Dutch trade empire flourished, a new item reached the Netherlands: the tulip bulb. The tulip quickly became a status symbol and extremely fashionable due to its brightly-colored petals. The tulip trade quickly blossomed as many people wanted tulips and supply was relatively low. The price of tulips grew exponentially as merchants would try to buy a tulip bulb and then resell it for a profit. In an attempt to regulate the tulip trade the Dutch created a system where buyers could purchase contracts that allowed them to participate in the tulip trade. The contract trade caused further speculation. Just as quickly as it rose, tulip mania fell in February 1637. The catalyst was when a tulip auction was abandoned due to an outbreak of bubonic plague. By May of the same year, the price of tulips stabilized and tulip mania was over.

Reputation deserved?

Tulip Mania has a reputation as an event where an entire nation devoted their economy to a flower which led to a massive speculative bubble which popped and plunged the

Dutch economy into ruin. There are several reasons why Tulip Mania does not deserve its lofty reputation.

First, Tulip Mania does not count as a speculative bubble. It is true that at one point a single tulip bulb was worth more than five houses. But a speculative bubble occurs when a product's price rises due to the belief that the product's value and therefore price will continually increase. The sharp increase in the price of tulip bulbs can be attributed to a single event: the Thirty Years War. A pause occurred in the Thirty Years War during the 1630s which is when tulips began to be a valuable commodity. In 1636 the war picked up and the Dutch under the leadership of the French were involved. Trade during wartime and no exception was made for tulips. As supply decreased demand rose thus creating a steep rise in prices. Since the rise in prices can be attributed to a single event, Tulip Mania does not count as a speculative bubble.

Second, the actual rise in Tulip prices can be attributed to the natural volatility of flower prices. The natural volatility of flower prices is a phenomenon that when a new flower is introduced to a market the price will naturally be very high and not realistic. The flower price will naturally decrease the longer the flower exists in a market.

Next, the Dutch parliament attempted to regulate the tulip trade. The Dutch guild of florists saw the rise in tulip prices and thought something needed to be done. The Dutch parliament passed legislation that made all tulip contracts option contracts. This meant that the buyer could opt out of their obligation to buy tulips. This hurt the tulip sellers and partially caused a drop in prices.

Next, Tulip Mania's reputation stems largely from Charles Mackay's propagandist *Extraordinary Popular Delusions and the Madness of the Crowds*. Mackay claims Tulip Mania involved the majority of Dutch people and that the Dutch economy suffered. We now know that these statements are highly exaggerated

Finally, Tulip Mania had minimal impact on the Dutch economy. Before Tulip Mania, the Dutch were the wealthiest country in terms of wealth per capita. This remained true even after the supposed speculative bubble collapsed. Contrary to popular belief, Tulip Mania did not involve many people but only select merchants. The Dutch economy did not suffer any long term impact and the Dutch continued their trade dominance.

### Conclusion

Tulip Mania does not deserve its lofty reputation as a speculative bubble over a flower that wrecked the Dutch economy. Tulip Mania is an interesting footnote in early market history but does not deserve its weighty reputation.