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Published on EH.Net (August, 2000)

This small book has been hailed by a series of financial economists with high reputations, including Rudi Dornbusch, Robert Shiller, Richard Sylla, Michael Bordo, Mike Dooley, Eugene White and Charles Calomiris. Its thesis is that calling a sharp financial expansion that collapses a “mania” or “bubble” is sloppy thinking. Behind each upset lie some fundamental conditions. Even if historical contemporaries call an episode a mania or bubble, good economic historians should probe more deeply and determine what fundamental brought it on. They should stay clear of expressions like mania, bubble, herd behavior, panic, crash, irrational exuberance, financial crisis, chain letter, Ponzi scheme, contagion and “other-fool theory.” Instead, they should dig.

Peter Garber focuses on three episodes: the Dutch tulipmania of 1634-37 (one word in his lexicon) and the Mississippi and South Sea “bubbles” of 1719-1720. The tulipmania, on which he has written before, takes eighty-three pages of text, compared with thirty-five for both Mississippi and South Sea. The tulip fundamental is that rare bulbs are hard to produce, but once achieved they are relatively easy to propagate—this brings high and rising speculative prices for rare species in the process of being developed, which fall after the exotic coloring has been won. In earlier work Garber held that the similar bubble for common varieties or pound goods was difficult to explain. In this book he holds that their price history was meaningless—the players at the various “colleges” or taverns were merely seeking entertainment, after the disastrous bubonic plague of 1634-36, confident that any substantial losses would be written down by the state. The speculation in his new view was just an idle “winter drinking game” played for amusement. This basis of that confidence in February 1637, when the write-down in Haarlem occurred in May 1638, is unclear.

Garber has provided a great deal of tulip prices in the period, much of it for different dates, apart from February 7, 1637, from different sources. One major source took the form of a debate for and against the speculation promoted by government in the spring of 1637 to discourage speculation. Some sixteen charts of the prices of particular bulbs (some exotic, some common) dis-
play straight lines joining an early price to those of 1636 or 1637 to the weighted average of the day's price, not the peak. A straight line from, say, 1622 to 1637 gives an impression of gradual rising, whereas there might have been a sharp rise in the last weeks or month, as is shown in some charts.

Some arguments against the existence of a bubble are hardly persuasive. One is that there was a depression following the collapse, as there had been after the US stock market bubble of 1929 and the Japanese of January 1990. Another is that the *Cambridge Economic History of Europe in the Sixteenth and Seventeenth Centuries* does not mention it. Two important Dutch histories, do, however: Jonathan I. Israel whose *The Dutch Republic* (Oxford: Clarendon Press, 1995) sets it in the boom of East India Company shares, the West Indies Company, housing, drainage schemes for the wealthy and tulips for small town dealers and tavern keepers (pp. 552-53); and Jan de Vries and Ad van der Woude, *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500-1815* (New York: Cambridge University Press, English translation, 1997), who call it a mania and include considerable detail. They make the point that the contracts in the taverns were unenforceable. "Public officials viewed this democratic speculation with both fear and loathing, and once the mania collapsed ... pamphlets appeared denouncing the irrational and immoral conduct of the speculators" (p. 150-51).

Garber's book was written before the appearance of *Devil Take the Hindmost: A History of Financial Speculation* (New York: Farrar, Straus and Giroux, 1999), by Edward Chancellor, English banker and historian. So he had no opportunity to respond to Chancellor's third chapter devoted to tulipmania. Chancellor, on the other hand, had read one of Garber's early articles and takes a dim view of it. "This bold attempt at historical revision does not withstand scrutiny." Several points are questioned, especially buying bulbs in the ground in winter which will not be known to have produced exotic offshoots until exhumed in June, and then whether the offshoots would produce exotic flowers until years later . . . "The term 'speculative mania' aptly described the condition of the Dutch tulip market in the mid-1630s" (pp. 24-25).

I have left too little space to deal with Garber's treatment of the Mississippi and South Sea bubbles. He regards each as a sensible experiment in what is now called Keynesianism, bidding up the price of shares, financed by a captive bank, in the hope that supply would expand later to justify the higher prices. But speculation based on hope is difficult to characterize as a fundamental, which in ordinary parlance is more tangible. The enemies of John Law in France, largely in the Languedoc, were "infinitely more realistic than Law . . . . The true masters of high flight who directly stimulated the agiotage, kept aloof from the fever, planning themselves to ruin Law's systeme when they judged the movement favorable" (Guy Chaussinand-Nogaret, *Les Financiers de Languedoc au XVIII Siecle*, Paris: S.E.V.P.E.N., 1970, p. 129). Chancellor includes the South Sea bubble in *Devil Take the Hindmost*, noting that "some speculators lost fabulous sums . . . 247,000 . . . and 700,000 of a paper fortune. Sir Isaac Newton lost 20,000 by selling out too early (with profit) and then returning to the market at its peak" (p. 88). "A rational investor is one who seeks to optimise his wealth by offsetting risk with reward and using all publicly available information. Was the investor who bought South Sea stock at 1,000 behaving rationally? The answer is no. First, there was sufficient public information to suggest that the share price was seriously overvalued. Second, by entering the bubble at an advanced sate the investor faced a poor ratio of risk to reward: he was chasing a small potential gain and risking a larger and more certain loss. Third the 'fundamentals' (i.e., the long-term prospects of the company) did not change significantly in the year" (p. 94). Chan-
cellor does not address the Mississippi bubble except tangentially.

As for herding, investors in London and Paris, cashing out in their local bubble bought shares in the other. As South Sea stock started to slip in July 1720, eighty denizens of "change alley" in London went to the Dutch Republic to mend their fortunes in insurance companies in Amsterdam, Middelburg, and Rotterdam. Only, two insurance companies of the more than twenty survived (Frank Spooner, *Risks at Sea: Amsterdam Insurance and Maritime Europe, 1766-1780*, New York, Cambridge University Press, 1983, pp. 24-25).

Belief in efficient markets is subscribed to by many, but may be losing credence after the April 2000 decline of the NASDAQ share index. Andrei Schleifer of Harvard has just brought out a book, *Inefficient Markets* (New York: Oxford University Press, 2000), which argues, inter alia, that many investors do poorly in the market because they chase the latest fashion. This is herd behavior.

Garber claims that the world "bubble" lacks clear meaning and that it should be invoked only as a last resort. The same would seem to apply to fundamentals based on hope. The notion that markets are rational, efficient and collate all available information is a strong prior belief often used in the absence of clear facts. Finance has fads that rest on contagion, some of which may later prove illusory. For the world today, one can mention conglomerates, mergers and acquisitions, initial public offerings, hedge funds, loans to emerging markets, and the Long-Term Capital Management fund.

The last in this list evokes a remark from Garber with an edge to it. "Law's . . . experiment is tarred with the pejorative 'bubble.' When modern economic policymakers' reach exceeds their grasp, they simply accommodate the ensuing tenfold price inflation and get the Nobel Prize" (p. 107).

The debate between those who believe market are always rational and efficient, resting on fundamentals, and historians who call attention to a series of financial crises going back to at least 1550 is likely to continue. Parsimony calls for making a choice for or against financial crises; complexity permits one to say that markets are mostly reliable but occasionally get caught up in untoward activities.
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