Flowers and Economics

A half true myth

Our closest neighbour – after Austria and Bavaria – is Holland. Did you know that one of its biggest key industries is the production of flowers? Worldwide, the majority of imported flowers once grew in that nation – I was quite stunned when I found that one out!

Almost anyone who ever had gotten in touch with economics also heard about the enormous speculation and the subsequent market crash, of which both were directly related to the *tulip* – which is one of the most popular export products of the Netherlands.

Nowadays, it may feel like a myth, a bare legend made up by critics of the market economy. Apparently, various claims later turned out to be mere misconceptions and even up to today, some persons keep holding active debates about it – which in turn is quite justified in my opinion: The *tulip mania* can serve as a great illustrative model for numerous principles of the fundamental economical system. So here, I am going to come up with some kind of explanation for that rather dodgy claim.

How it began

Tulips came from the colony of eastern India. Dutch citizens grew them as a hobby at first. The climate and ground of the Netherlands is ideal for growing flowers; tulips require cold winters and a sandy soil. Under certain circumstances, they grow daughter onions, which are clones of their mother onion. People learnt how to *multiply* them using this principle and enhanced that process over the years. They met frequently for discussing their hobby, sharing knowledge and trading onions – as archetypal Dutch do as you might know.

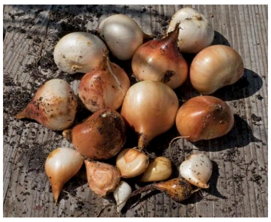
Over the years, more and more people jumped on the tulip bandwagon. Many of them being people like medics, teachers, traders, but also coming from various other parts of the population. Slowly, money got into the game, especially as more wealthy individuals wanted to have nicer gardens without making their hands too dirty. While the *multiplication* of tulips was pretty much sorted, however, the *cultivation* of tulips was and still *is* requiring quite some dedication and time, involving manual fertilization, seeding and waiting for a small amount of years per generation (!), thus making new varieties rather rare.

Today, there are plenty of tulip variations.

Here comes the market

From here on, we have *textbook market economy* already: We have a *low offer*, high prices caused by the high amount of resources and in contrast, we have people with the rising urge towards more variation in their gardens, causing an *excessive demand*. We all know where this is going, right? Unsurprisingly, the interregional tulip market was skyrocketing through the roof.

As the prices and margins rose, investors entered the marked. Those are folks who are not necessarily that much interested in the matter by itself. All of which they have to care about, is making a profit – or in simple terms, getting more money than they had spent before. This flood of newcomers in conjunction with the highly speculative nature of tulip trading lead to a mutation of the market that had less and less to do with its rational fundaments. One of the reasons for the speculative nature was that tulips were often traded as bare onions with no real clue on how the flowers will eventually look. Additionally, people began trading just the *claims* without ever seeing the tulips in question. Dutch law for good reasons forbade trading claims already before but the market contestants did not really care which later in turn lead to quite some additional trouble and confusion, since most trade contracts were *legally invalid* in the first place – and not just contestable. (I deserve a little bonus for that well-made cross-reference!)



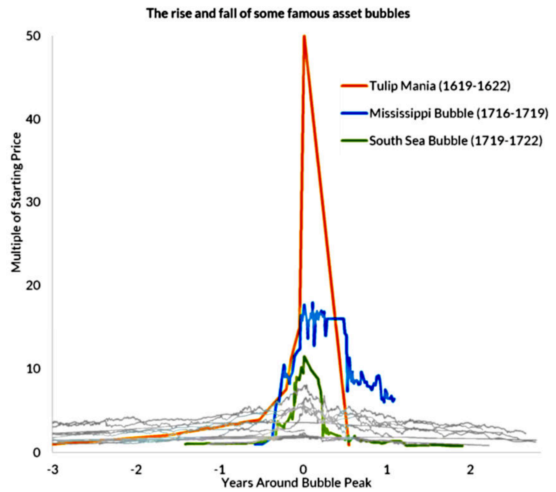
Hard-to-determine in value: Tulip onions.

The holy grail of tulip mania: Semper Augustus.

Ridiculous prices

Some sorts of tulips got awfully expensive. The most valuable one, *Semper Augustus* (see above), was at times more valuable than a decent house.

Centuries later, it was found out that it is not really a genetical variety but a red tulip with a virus that blocked tinting on some areas, which explains why it was that *hard* to reproduce it. Due to the extremely low offer, it was worth more than its weight in gold. The overall value of tulips was in their number of distinctive varieties; reproducing or multiplying them was not that big of a trouble, apart from some exceptions like that one noted previously. Due to the growing number of varieties, the market also kept growing and growing. On some point, the offer of varieties got bigger than the demand. The interest in buying rare tulips for a fortune declined and as soon as that was emerging, people had even less interest in risking immersive amounts of money for something perhaps nobody wants to pay anything for the next year.



The tulip asset bubble was one of the greatest ever. What however can <u>not</u> be seen here is that the bubble probably bursted way faster than it originally grew.

Aftermath

Subsequent to the burst, buyers tried to get their funds back, which had worked out sometimes, depending on regional ruling. Those who were unable to regain their investments usually were financially ruined. Conversely, many already spent a lot of money on credit, which they were later unable to balance. The countries' economy in total did <u>not</u> really *go down the stream* as some people think these days. Its impact on the general economy was not nearly as striking as the current corona crisis! So possibly, I missed our topic, I am afraid.

Conclusion

Frankly, I can just hardly deem this as an essay. It is not really that scientific but rather like a newspaper's article. However, I still think that one could extract something useful out of this pile of texts and pictures.

I think the story *as such* is very useful for explaining or understanding the principle behind asset trading and thus of asset bubbles. It depends on *offer* and *demand*!

Image sources: WDR, fluwel.de, Convoy Investments
Content source: Back of my head, various sites and videos