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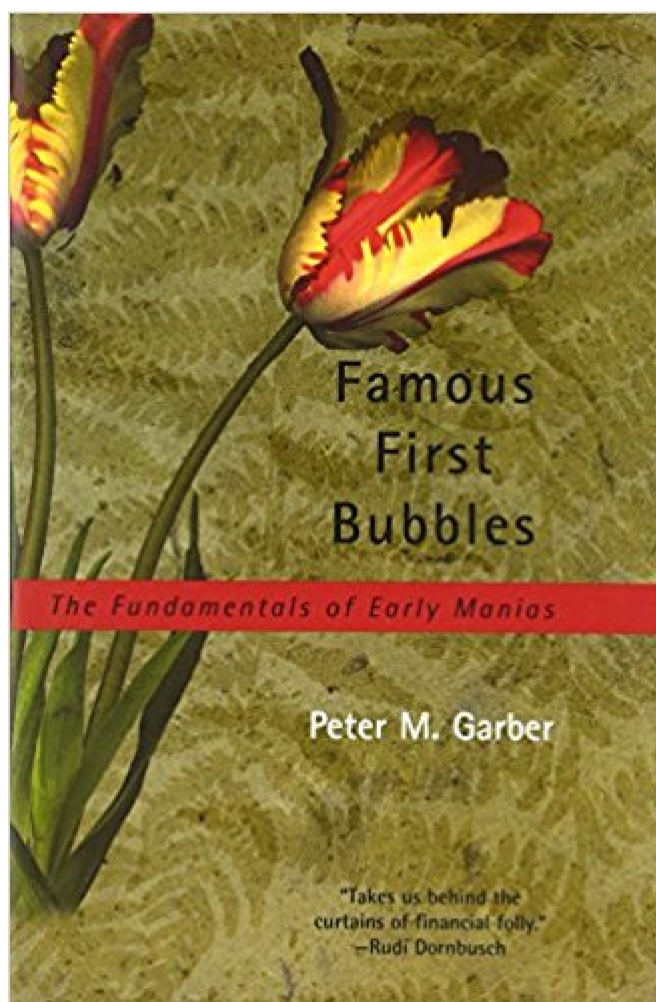
Famous First Bubbles: The Fundamentals Of Early Manias



Synopsis

The jargon of economics and finance contains numerous colorful terms for market-asset prices at odds with any reasonable economic explanation. Examples include "bubble," "tulipmania," "chain letter," "Ponzi scheme," "panic," "crash," "herding," and "irrational exuberance." Although such a term suggests that an event is inexplicably crowd-driven, what it really means, claims Peter Garber, is that we have grasped a near-empty explanation rather than expend the effort to understand the event.In this book Garber offers market-fundamental explanations for the three most famous bubbles: the Dutch Tulipmania (1634-1637), the Mississippi Bubble (1719-1720), and the closely connected South Sea Bubble (1720). He focuses most closely on the Tulipmania because it is the event that most modern observers view as clearly crazy. Comparing the pattern of price declines for initially rare eighteenth-century bulbs to that of seventeenth-century bulbs, he concludes that the extremely high prices for rare bulbs and their rapid decline reflects normal pricing behavior. In the cases of the Mississippi and South Sea Bubbles, he describes the asset markets and financial manipulations involved in these episodes and casts them as market fundamentals.

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Customer Reviews

This wonderful, short book takes us behind the curtains of financial folly. It skillfully offers both anecdote and analysis of events that we may bereliving just now. (Rudi Dornbusch, Ford Professor of Economics and International Management, MIT) Famous First Bubbles is the most thorough, and thoughtful, examination of history’s legendary speculative bubbles. We hear about these bubbles in

popular discourse all the time, but almost never with any real insight or information about them. Garber shows that the reasons for these major speculative price movements are more subtle than is generally recognized. This book is important to read today, since our impressions of past bubbles influence our view of the current markets. (Robert J. Shiller, Cowles Foundation for Research in Economics, Yale University)This book is a wonderful antidote to the sloppy thinking and superficial research that underlies most of the talk about bubbles. Garber shows that fundamental changes were arguably driving the changes in price in the most famous historical examples of bubbles. The discussion of tulipmania is grounded in the political, social, and economic history of the Netherlands, a thorough examination of data and secondary sources, and a fascinating investigation of the biological origins of rare tulip bulbs. The treatment of the Mississippi Bubble rightly emphasizes the link between money creation and securities price fluctuations. Garber also captures the profound difficulty speculators must have faced when evaluating both the Mississippi and South sea companies, commercial schemes (which many scholars still believe might have worked), and the dangers of retrospective judgments about fundamentals based on actual collapses. The book is a model of how to combine careful theoretical reasoning with first rate-scholarship and a delightful sense of irony. (Charles Calomiris, School of Business, Columbia University)Garber's careful and reasoned analysis of key events in financial history provides a reality check for those who mistake uncertainty about the future for irrationality here and now. (Richard Sylla, Henry Kaufman Professor of the History of Financial Institutions and Markets and Professor of Economics, Stern School of Business, New York University)Peter Garber has written the definitive book on the tulipmania and the South Sea bubbles. He integrates sound economic analysis with historical detail in a highly convincing manner. His bottom line that the earlier bubbles reflected sound economic fundamentals rather than 'irrational exuberance' should be heeded. (Michael D. Bordo, Department of Economics, Rutgers University)When stock markets boom, tulipmania, the South Sea Bubble, and the Mississippi Bubble are conjured up. These events are used to remind people that investors often yield to irrational euphorias. The authority of these famous first bubbles is invoked by journalists, policy makers, and economists to emphasize that swings in the markets are irrational and unpredictable. What is rarely remembered is that these episodes had fundamentals. In this book, Peter Garber identifies the fundamentals and debunks the ideas that these periods are bubbles. Thus, the stories of the bubbles are not cautionary tales that school us to expect a crash with every spectacular rise of the stock market. (Eugene N. White, Professor of Economics, Rutgers University)This brief and to-the-point look at famous 'popular decisions' makes a good case for the view that governments rather than markets are the source of financial crises. (Mike Dooley,

Economics Department, University of California, Santa Cruz)

Peter M. Garber is Global Strategist at Global Markets Research of Deutsche Bank.

I did not finish this book entirely but I do not like it much. It is written as if it is a scietific study with al ot of references to books that may not be available anymore. It has no scientific value because it reworks the data of others and no new insights are gained.As an inforative book it misses anything that you can call a storyline. Only the part about the Mississipi bubble is readeable.

During the collapse of the so-called Internet bubble, the legendary Dutch fiscal intoxication with tulips, called tulipmania, was widely cited as a lesson from history. The financial press hyped stories of deluded Dutch farmers who mortgaged all their worldly possessions to purchase a single prize tulip bulb, only to meet financial ruin when the bubble inevitably burst. Economist Peter M. Garber dug into history, and found that most of the common wisdom about the tulipmania was false. So, if you ever wondered how Dutch investors could have been so foolish, there is a simple answer: they weren’t. Famous First Bubbles clearly evolved from a series of academic papers but, nonetheless, the book is entertaining. The primary focus on the tulip bubble makes the sections on the Mississippi and South Sea Bubbles seem like afterthoughts. We from getAbstract recommend this to iconoclasts who enjoy debunking historical legends and to bubble watchers everywhere.

The author does an excellent job debunking the myth about the Dutch tulipmania from 1634 to 1637. He conducted detailed economics and historical research, and uncovered that just about everything about tulipmania as described in Charles Mackay book "Extraordinary popular Delusions and the Madness of Crowds" is either inaccurate, or exaggerated. The Dutch never mortgaged their entire properties for a single bulb. Also, Holland did not suffer a depression after the tulip market crashed. According to the author, very little net wealth was actually wiped out. Instead, the price of rare tulips was driven by rational economic considerations reflecting the short supply and the rising demand for this rare tulip bulb type. The price of these tulip bulbs at anyone time reflected expected investment returns from investors. Other economists have also documented that the price of tulip bulbs did go back up to similar level several centuries later associated with favorable economics change in this market.The author goes on to further explain the rational economics fundamentals behind the Mississippi Bubble of 1719-1720 resulting from an attempt to swap French government debt for equity in a private company, financed by printing paper money. He similarly explains out in

similar economics terms the South Sea Bubble of 1720 which was the equivalent of a leveraged buyout of the national debt of Great Britain. Both investment schemes ultimately collapsed, but their respective economics and strong government support at the onset gave these investment propositions very strong fundamentals. These investments are not so different than investments today in GSEs like Freddie Mac, Fannie Mae, and Sallie Mae. Because of accounting irregularities, the stocks in these GSEs have recently taken a beating. But, there is no ground for talking about a GSE stock bubble.The author has strong credentials to support his iconoclastic thesis that is not that well known by the economics establishment. He is a global strategist at Global Markets Research at Deutsche Bank and Professor of Economics at Brown University.The Internet bubble has often been compared to the three investment bubbles mentioned above. Sadly enough, internet stock investors were by far the most foolish among investors of these four different investment bubbles. This is because at the onset the fundamentals behind internet stocks were far weaker and speculative than the ones associated with the investments associated with any of the three other bubbles.

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Episodes as the Tulip Mania, The South See Bubble, the Crash of 1929 are going to leave a permanent trace in financial science. So they deserve close investigation. The Author has achieved to make really a very interesting and vivid one. His ideas are very controversial, but exactly they make the book amusing. However, I haven't seen anywhere in the book a formula, integral, etc. Perhaps the purpose was to give more informal treatment of the bubbles phenomena, but it will be very interesting a formal one to be made in future by fitting concrete rational expectations models in the historical data. Vilimir Yordanov, Bulgaria

Peter Garber’s short book pokes holes in the view that markets today can exhibit "irrational exuberance" simply because it is "well known" that they did so in the cases of the Dutch Tulipmania and Mississippi and South Sea Bubbles. He says a bubble can only happen where there is no fundamental economic rationale for the rise and subsequent fall in prices. He states that these early events may not have been bubbles. He provides coherent explanations for these events based on economic fundamentals, and he supports his argument by analyzing the available price data in historical, economic, and political context.

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