

We The People
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We the People 318 A Tulip Mania of the 21st Century



Good day to you. I acknowledge Gujral and co and Orford as contributors today. **A crypto-currency**, broadly defined is virtual or digital money which takes the form of tokens or “coins.” While some crypto-currencies have ventured into the physical world with credit cards or other projects the large majority remain entirely intangible. The “crypto” in crypto-currencies refers to complicated cryptography which allows for a particular digital token to be generated, stored, and transacted securely and typically, anonymously. Crypto-currencies are almost always designed to be free from government manipulation and control, although as they have grown more popular this foundational aspect of the industry has come under fire. To understand the risks involved we need to go back in time to the 17th century in the Netherlands and a period of time called **Tulip Mania**.

How much do you pay for a bouquet of tulips. Perhaps a few dollars, on occasion a hundred dollars, but certainly not a million dollars! Yet there were many instances in history when items like tulips, real-estate or dot-com stocks were sold at much more than their intrinsic value due to speculative investments made by a big segment of the population. In each of these instances prices rose exponentially and abruptly deteriorated. In the 17th century, Netherlands entered the Dutch golden age. By the 1630s, Amsterdam was an important port and commercial centre. The Dutch East India Company imported spices from Asia in huge quantities to earn profits by selling them in Europe. This led to a growth in skilled merchants and traders who displayed their prosperity by living in colossal mansions surrounded by flower gardens. Tulips were particularly in high demand. Tulips were considered an exotic flower as they were imported from the East in ships, moreover, tulips were difficult to grow as it could take years for a single flower to blossom. This situation was further escalated by the outbreak of Tulip Breaking Virus that made select flowers even more elegant by lining petals with multicoloured fiery streaks. These select tulips were scarcer than normal tulips so as a result, the prices of these flowers as well as their popularity began to rise along with **a decline in human reason**. Soon tulips became a nationwide sensation and tulip mania was born. **Tulip prices were caught in a positive feedback loop** where investors were caught up in the hype due to futures speculations and the decimation of prudence and common sense. Ultimately, it drove prices far above their actual intrinsic values, creating a bubble. Gradually, a collective realization that prices of tulips far exceeded their actual value took place and that pushed the prices to a staggering low and led the mania to an end and the bubble to burst.

Around 2010 with the onset of digital banking and lack of privacy in transactions, Bitcoin was in popular demand. The outbreak of the Wanna Cry virus in May 2016 contributed tremendously to the popularity of Bitcoin. Hackers demanded their ransom in Bitcoin to hide the traces of their transactions. Additionally, between October to November, the Chinese Renminbi depreciated against the US Dollar. That turned Bitcoin into a global sensation, recording a burgeoning increase in its exchange rate from **US450 dollars in 2016 to 17,900 dollars in 2017**. In Australia the Bitcoin value, like the tulips, rose to **AU\$25,000 then fell to \$9000**. So the lesson here is that speculation without reason or common sense will end in tears. Be careful, as the world heads into an even more greedy future almost devoid of conscience or ethics. The human condition will falter so live within your means and only time will determine whether Bitcoin is a bubble or a global revolution in currency and only time will tell if mankind learns anything from the past. **It's all a game of chess and we are the pawns being paid in tulips.**

Until next time this is Kent Bayley