

A World-Famous Book

If one were to lead a stranger through the streets of Amsterdam and ask him where was, he would answer “among speculators,” for there is no corner where one does not talk shares.

—JOSEPH PENSO DE LA VEGA,
CONFUSIÓN DE CONFUSIONES

THIS IS NOT ABOUT Wall Street and the area around it, nor is it about the City of London. This is Amsterdam, the Amsterdam of around 1688—more than three centuries ago. It was not long since the great town houses along the rings of canals had been finished, and at night, save for a few flickering lanterns outside the houses, it was pitch dark in the streets and on the canals. On the far bank of the bay known as the IJ—clearly visible from the city—the bodies of condemned felons swung from the gallows. Was this really the place where people were talking about shares on every street corner?

It was. And the people of Amsterdam were talking about options,¹ too, and forward selling, quotations and prices, risk and speculation—all relating to the trade in the shares of the Dutch East India Company (the Vereenigde Oost-Indische Compagnie, VOC), which had been established in 1602. Fortunes were made and lost, and the men who engaged in this trade were wholly in thrall to it.

When the speculators talk, they talk shares; when they run an errand, the shares make them do so; when they stand still, the shares act like a rein; when they look at something it is shares that they see; when they think hard, the shares provide the content of their thoughts; if they eat, the shares are their food; if they meditate or study, they think of the shares; in their fever fantasies, they are occupied with shares; and even on the death bed, their last worries are the shares.²

These quotations come from a remarkable book, *Confusión de confusiones* (or, in the English translation, *The Confusion of Confusions*) published in 1688. The writer is Joseph Penso de la Vega, a member of a Jewish family with roots in Spain who, although he was probably born in Amsterdam in 1650, spoke and wrote in Spanish. De la Vega was involved in trade, as so many men were in seventeenth-century Amsterdam, but he was not the typical merchant. In the hours he stole from his sleep, as he put it, he also wrote novels on a range of subjects, plays in verse form, and marriage and mourning odes for prominent Jewish residents of Amsterdam. All his work is remarkable for the unusually flowery Spanish in which it is written. And in one work, his most famous, de la Vega chose a subject that makes his book unique: *Confusión de confusiones* focuses on the trade in shares in Amsterdam.³

There is no evidence either way to tell us whether *Confusión de confusiones* attracted much attention when it was published. In the twentieth century, however, as the world's earliest book on the stock market, it gradually became world famous. A German translation came out in 1919, followed by a Dutch edition in 1939 and an abridged version in English in 1957.⁴ In the 1980s the book increasingly picked up momentum. As the stock market began to occupy an ever more prominent place in society—and in times of boom and crisis regularly dominated the news—interest in the earliest history of the stock exchange grew. And the only source of that history was *Confusión de confusiones*.

The book's recent popularity was not caused solely by this interest in history. In 1995 the *Financial Times* published an article in which the editor picked *Confusión de confusiones* as one of the ten best books on investment ever written, describing it as a guide for modern investors.⁵ Every investor should know how the stock market worked in its original and purest form before venturing into current financial markets. And where better to find this than in a book about the world's oldest stock exchange, created in seventeenth-century Amsterdam?

Several new editions have appeared in recent years, but few of them contain the whole of de la Vega's text. *Confusión de confusiones* is a bulky book, two-thirds of it devoted to long, rambling digressions into parallels between the Amsterdam stock market and biblical and mythological stories. These tedious sections are usually omitted. So what do the buyers of the slimmed-down editions actually get?

There are three characters in *Confusión de confusiones*. Two of them, a merchant and a philosopher, have heard about the trade in shares and sometimes even watch the traders, but they do not really understand how it works and are afraid to take part in it themselves. They call upon the assistance of an experienced shareholder, the third character. In four imagined dialogues—a popular device for structuring a book in the seventeenth century—the shareholder explains to the others how trading is conducted, tells them about the different types of transactions, and warns them of the tricks and deceptions they must watch out for if they enter the fray.

The picture of share dealing that emerges is not always an attractive one. Negotiations over a share transaction could sometimes get quite heated and physical:

A member of the Exchange opens his hand and another takes it, and thus sells a number of shares at a fixed price, which is confirmed by a second handshake. With a new handshake a

further item is offered and then there follows a bid. The hands redden from the blows (I believe from the shame that even the most respected people do business in such an indecent manner as with blows). The handshakes are followed by shouting, the shouting by insults, the insults by impudence and more insults, shouting, pushes, and handshakes until the business is finished.

He explains that there are many people who prefer to remain aloof from this “battleground” and always use intermediaries to conduct their dealings for them so that they are not “molested” in this way.⁶ What’s more, the trade in shares is not only rough and coarse but also “the falsest and most infamous business in the world.” The shareholder warns the merchant and the philosopher against a whole raft of frauds that are common in the trade. There are, for instance, brokers who “encourage a friend whose judgment is esteemed, whose connections are respected, and who has never dealt in shares, to sell one or two lots of stock while the risk of loss is borne by the group. The notion [behind this maneuver] is the belief that anything new attracts attention, and that the decision of this person will produce astonishment and will have important consequences.” In other words, his action will lead many people to follow his example. This pushes the price down, and the brokers can buy shares cheaply.⁷

Undeterred by all this, the merchant and the philosopher decide to take the plunge, with a conspicuous lack of success. At the beginning of the third dialogue the self-pitying philosopher has a tale of woe to tell: “Last night my peace was turned into unrest, my calmness into despair, my awe into mockery, my knowledge into ignorance, my equanimity into frenzy, my respect into abuse. A speculator cheated me; a cheater took me at my word; a betrayer stole my reputation.” He had mixed with brokers, found out the price of East India Company shares, overheard other brokers saying that the share price could well rise further, and become so

overconfident that he offered ten points over the price. His bid was snapped up, and straightaway “so great was the noise, the shouting, and the laughter . . . that I blushed, not because of my foolishness, but from fury and shame.”⁸

The philosopher is swiftly disillusioned: “I know full well that there must be many stockbrokers who, were they not such, would be a model of amiability and a treasure-house of excellence, but let them but come near shares and some Medea or other seems to transform them or a Circe to bewitch them.” When the price takes yet another tumble, the philosopher comes close to despair: “I don’t know what I did, nor what I’m doing, nor what I must do.” Like the merchant, who had also ventured to make a few transactions, he decides to pull out of the trade without delay: “I realize that my intellect is not equal to this tangle, for if the study of it is enough to confound me, just think what would happen were I to embark upon it in earnest.”⁹

The philosopher doubts that he has a sufficient grasp of the stock market because his intellect is inadequate. And it really did not help that the shareholder who revealed to them how the stock exchange worked did so in a very obscure and roundabout way. In his explanation of options he simply said that “one uses them as sails for a happy voyage during a beneficent conjuncture and as an anchor of security in a storm.”¹⁰ Would this have enabled the merchant and the philosopher to understand how an option works and what they could use options for?

Things become even more complex and incomprehensible when the shareholder explains that traders can refuse to accept a share by saying that they made “an appeal to Frederick.”¹¹ What sort of cryptic invocation was this—a spell that could seemingly release a trader from all his obligations?

To be frank, *Confusión de confusiones* raises more questions than it answers. It certainly makes it clear that seventeenth-century Amsterdam was gripped by stock market fever and that the traders used all sorts of complicated transactions. But how,

exactly, did the stock market work? And how did it develop so quickly after the founding of the Dutch East India Company?

This book mines the records of traders who were active in the Amsterdam stock market to tell the real story of the world's first stock exchange, and at the same time it sheds new light on de la Vega's famous work.

A New Company

AT JUST BEFORE TEN in the evening of Saturday, August 31, 1602, the notary Jan Fransz Bruyningh closed the door of his house on Heintje Hoekssteeg behind him. He walked along the narrow alley toward Warmoesstraat and turned left. A few minutes' walk brought him to his destination, the house of the merchant Dirck van Os on Nes, where two men were waiting for him. Jacques de Pourcq and Anthony van Breen would be assisting him as witnesses.

Dirck van Os was one of the directors of the Dutch East India Company (Vereenigde Oost-Indische Compagnie, or VOC), which had been founded earlier that year. When the notary knocked on the door, van Os was sitting with some of the other directors—Isaac le Maire was there, as were Louis del Beecke, Reinier Pauw, and Pieter Dircksz Hasselaer. The bookkeeper of the Amsterdam chamber of the VOC, Barent Lampe, was seated behind an imposing volume with deckle-edged pages and a vellum cover, the Amsterdam chamber's subscription share register.¹