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When Satefy Becomes Risky. Essays on Venality, Safe Assets, and the Bubble for Offices in Early Modern Spain

Víctor M. Gómez Blanco

ABSTRACT: *This dissertation examines the existence of an asset bubble in the Castilian market for offices in the 17th century. Utilizing a newly constructed database of 1,813 sales and 2,794 resignations of offices from 1543 to 1714, the study integrates quantitative empirical analysis with qualitative evidence to analyze market dynamics, office profitability, and financial characteristics. Findings confirm that venal offices evolved into a safe asset, ultimately experiencing a speculative bubble: "Office Mania" (1595–1630). The bubble emerged due to a shortage of traditional safe assets and easy credit access, culminating in a market collapse by the 1630s. This study contributes to financial history by demonstrating pre-industrial financial sophistication and the intricate relationship between venality, safe assets and bubbles. It also underscores the paradox of perceived safety fuelling speculative cycles and open new avenues for research on financial crises and early modern markets.* (**JEL CODES**: N23, P14, G01)

AUTHOR: Víctor M. Gómez Blanco (CUNEF Universidad; victor.gomez@cunef.edu).

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1. Introduction

Economics has traditionally focused on rational individuals and efficient institutions. However, reality often diverges from these ideal assumptions. Asset bubbles, characterized by irrational exuberance and speculative mania, are a perfect example of this divergence. Although rational bubble theory attempts to explain these phenomena as the result of rational decision-making, historical evidence consistently highlights they are often driven by widespread irrational behavior, leading to inevitable collapse. These episodes, though fascinating, also carry significant economic implications, ranging from catastrophic economic downturns to transformative technological investments. Yet, despite their significance, asset bubbles remain underexplored from an empirical perspective. Spain exemplifies this gap in research, where only the recent housing bubble is widely recognized.

This dissertation aims to fill the gap by investigating the existence of an asset bubble in early modern Spain. Building upon foundational research by Castañeda and Hernández (2013), this research provides comprehensive evidence of a boom-bust cycle in the Castilian market for offices during the 17th century. The sale of offices, or venality, has historical roots across 16th-Century Europe, most notably in France and Castile. While historians have extensively analyzed the political and social aspects of venality, little attention has been given to its financial dimensions. By constructing a long-term database of office sales, analyzing market dynamics, and applying modern financial theories to historical data, this dissertation shows that venal offices evolved into a financial asset class, driven by changes in institutional framework and investor behaviour. Moreover, a shortage of traditional safe assets contributed to the emergence of an asset bubble—termed “Office Mania”.

2. Framework and methodology

The dissertation adopts a comprehensive mixed-methodology approach, integrating quantitative empirical analysis with qualitative historical insights to examine the phenomenon of Castilian venality. The research is structured around four interconnected chapters, each addressing distinct yet complementary aspects of office sales in early modern Castile.

The first chapter details the construction, representativeness, and limitations of an extensive and unique database of office sales, compiled through archival research in records from the Council of Finance, the Chamber of Castile, and local notaries. This dataset, covering 1,813 sales and 2,794 resignations across various office types in major Castilian cities (1543–1714), enables a robust quantitative analysis of market structures, price trends, and transaction characteristics.

The second chapter explores the legal, institutional, and economic transformations that enabled offices to evolve from royal appointments into tradable and inheritable assets. It introduces two key processes: patrimonialization (Tomás y Valiente, 1970), which allowed offices to be integrated into family patrimony, and institutionalization, marked by the formalization of property rights. Employing econometric modeling, this chapter estimates the overall market size and evaluates office profitability through wage-to-price ratios and lease arrangements.

The third chapter investigates whether these offices met the criteria for classification as safe assets. It compares offices to traditional haven assets like precious metals and long-term public debt (*juros*). It also assesses the liquidity and risk characteristics of offices, applying dynamic panel data models, including the Augmented Mean Group estimator (Eberhardt and Teal, 2011), to analyze their stability during economic downturns.

The fourth chapter examines whether observed price fluctuations in the office market during the early modern period exhibit characteristics of an asset bubble. Leveraging Kindleberger's classic framework (Kindleberger and Aliber, 2011), Aoki et al.'s (2014) theoretical model and Quinn and Turner's (2020) "bubble triangle" theory, this chapter applies dynamic panel models and interrupted time-series analyses to assess the divergence of office prices from fundamental values, aiming to demonstrate the existence of Office Mania and identifying its underlying causes.

3. Main findings

The research findings significantly contribute to the fields of financial history, political economy, and the study of asset bubbles.

First, the dissertation quantifies the size and integration of the Castilian office market, challenging previous ideas of fragmentation and insignificance. The research establishes that this market was substantial, with an estimated value of 2.8 million ducats in 1581, expanding to 10.9 million ducats by 1640 in Cortes cities. Using a Vector Error Correction (VEC) model, the study demonstrates that these markets were interconnected across Castilian cities, maintaining long-term price equilibrium facilitated by a network of intermediaries, indicating advanced market sophistication.

Second, the analysis reveals that offices became lucrative financial investments. Fixed-wage offices typically offered returns between 2.6% and 5.7% annually, while variable-pay offices yielded 6% to 12%. Moreover, office holders innovatively employed financial instruments, including leases, long-term credit collateralized by office holdings (*Office-Backed-Censos*), and short-term repurchase agreements (repos). This financial engineering highlights early modern Castilian investors' sophistication, expanding our understanding of pre-industrial financial practices.

Third, the research demonstrates that offices functioned effectively as safe assets, meeting key criteria such as stable valuations, absence of adverse selection, and liquidity in active secondary markets. The Augmented Mean Group model confirms a negative correlation between office prices and GDP per capita, indicating that demand for these assets increased during economic or financial downturns. Notably, when traditional safe assets such as *juros* lost credibility due to mismanagement of Crown debt, investors shifted towards offices and silver coins, treating them as alternative safe investments.

Finally, this dissertation provides empirical evidence confirming the existence of an asset bubble in the Castilian office market between 1595 and 1630, the "Office Mania". Initially, demand for offices surged due to a shortage of traditional haven assets, particularly *juros*, whose value deteriorated due to poor fiscal management by the Crown. Prices subsequently inflated, exhibiting all three conditions of Quinn and Turner's (2020) bubble triangle: high marketability, easy credit access, and widespread speculation. The bubble collapsed in the 1630s, coinciding with economic instability, declining office profitability, and tightening credit conditions. This downturn led to widespread financial distress, forcing many officeholders into negotiations with creditors.

4. Concluding remarks

This dissertation presents novel findings that significantly enhance the historical and financial understanding of venality and asset bubbles. By demonstrating that Castilian venal offices evolved into sophisticated financial assets susceptible to speculative booms and busts, this research challenges conventional perspectives that have underestimated pre-industrial financial complexity in Castile.

The discovery of the Office Mania bubble enriches the empirical history of financial crises, shedding light on the mechanisms underlying speculative episodes. The Castilian case particularly aligns with the "bubble triangle" by Quinn and Turner (2020) and offers the first historical empirical application of Aoki et al.'s (2014) rational-bubble based model. The findings reinforce the understanding of asset substitution, illustrating how economic agents reallocate investments in response to shifting perceptions of safety in traditional safe assets.

Future research avenues could expand upon these findings by investigating the role of financial intermediaries in greater depth, exploring comparative studies with other European office markets, and assessing the broader socioeconomic impacts of the Office Mania. Additionally, examining other contemporary asset markets, such as land or secondary debt transactions, could enhance understanding of the interdependencies of early financial markets and the dynamics of financial crises.

In conclusion, this dissertation deepens our empirical and theoretical understanding of early-modern financial markets, asset bubbles, and safe assets. By highlighting a previously unknown speculative phenomenon—the Office Mania—it provides a foundation for future research and contributes valuable insights applicable to both historical and contemporary financial systems. This case particularly exemplifies how perceptions of safety can paradoxically fuel speculative risk-taking, underscoring the enduring complexity and relevance of financial history to modern economic phenomena.

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