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## Thank the Pilgrims for eBay, by Victor Niederhoffer and Laurel Kenner

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The story of the Pilgrims' first years in America shows how a change from common ownership to private property led to the feasting celebrated today at Thanksgiving. Similar tales of expanding harvests and benevolence are told wherever people can keep the fruits of their labor and trade them as they please.

The story illuminates why eBay and Chicago Mercantile Exchange Holdings, the owner of the Chicago Mercantile Exchange, were among the two best-performing stocks in their class during each of the last two years, and it provides a useful signal that other markets now preparing to go public might be good investments.



After landing at Plymouth in November 1620, the Pilgrims endured a cold, hungry winter during which half of them died. Promised supplies failed to arrive from London. The 1621 harvest wasn't as big as hoped, nor was the 1622 harvest. More famine seemed inevitable.

And then the colony began to talk through the problem. The London merchants who financed the Pilgrims' settlement specified "that all such persons as are of this colony are to have their meat, drink, apparel, and all provisions out of the common stock and goods of the said colony." In 1621, the Pilgrims planted 26 acres, according to Judd W. Patton, an economics professor at Bellevue University in Nebraska. In 1622, they planted 60 acres, but that wasn't enough to keep hunger away.

People began to steal by night and day, "although many were well whipped," Gov. William Bradford reported.

The system made no sense to anyone. The hard-working subsidized the slackers. The young and ambitious didn't want to do work for anyone else and get nothing for their trouble. The wives of some of the men objected to be commanded to wash clothes, dress meat or do other tasks for other men.

As Bradford would later write in "Of Plymouth Plantation 1620-1647," "At length, after much debate of things, the Governor (with the advice of the chiefest amongst them) gave way that they should set corn every man for his own particular, and in that regard trust to themselves, in all other things to go on in the general way as before."

In what's known today as the Land Division of 1623, each family was allotted land at the rate of one acre per family member and told to go out and produce. More than 184 acres were planted that year. And, Bradford reported, "This had very good success, for it made all hands very industrious, so as much more corn was planted than otherwise would have

been by any means the Governor or any other could use, and saved him a great deal of trouble, and gave far better content. The women now went willingly into the field, and took their little ones with them to set corn."

What is apparent from this history is what we all know from our experience: When you can benefit from working hard, you work harder. Under the system of common ownership, there was stealing, shirking and malevolence. Under the incentive system, there was good feeling, hard work and benevolence.

News of the success at Plymouth and other settlements like it attracted more and more immigrants to the New World. And everyone who lives in America today has a personal story that is part of that great continuing tale.

The impulse to improve one's conditions through greater effort and trade is as natural as breathing, and this has been so since the beginning. New York University economist Haim Ofek, in "Second Nature: Economics Origins of Human Evolution, argues that trade helped spur the growth of the brain.

"Exchange requires certain levels of dexterity in communication, quantification, abstraction, and orientation in time and space, all of which depend on the lingual, mathematical and even artistic faculties of the human mind," Ofek writes in the introduction to his 2001 book. "Exchange, therefore, is a pervasive human predisposition with obvious evolutionary implications."

Relatively flexible and acute people had an edge in trading. They survived and prospered, they had bigger, healthier families, and their descendants became dominant.

The success of eBay since its founding in 1995 shares many similarities with the Pilgrim story. Now a public company with a market value of around \$75 billion, eBay has created an electronic network of niche markets that takes account of the infinity of human tastes and aptitudes and specializations. The stock is up 72-fold since its September 1998 IPO, from a price-adjusted initial price of \$1.50 to \$109.42 as of Nov. 15. That is after a 77% drop in the tech crash of 2000.

Like the Pilgrims, eBay gives each of its sellers a piece of land (though in virtual space) to carry out his or her business. A spirit of benevolence is apparent in the company's feedback system; in almost half the transactions, both buyer and seller rate each other, with almost all them highly favorable. But to us, there is one overriding reason for eBay's success: It unleashes the desire and provides a forum for buyers and sellers to improve themselves by trade in a million ways every day.

The CME, odd as it sounds, also bears some similarities to Plymouth Colony. Founded in 1897 as a member-owned organization, the Merc started out as a market for the trading of foodstuffs. Its activities and goals were torn between the interests of the members and the interests of the public. A low point was reached in 1989, when a widely publicized sting operation uncovered conflicts of interest and failures to give the public a fair shake.

For years, the Merc had been content to play a sleepy second fiddle to the Chicago Board of Trade both in volume and number of products traded. In 1972, an inspirational governor — in this case, Leo Melamed — decided it was in everyone's interest to match members' interests with the growing public interest in financial products such as currencies, Treasury bills, Eurodollars and stock market futures. Growth exploded in 2000 as the CME prepared for the shift to public ownership by converting members' interests to shares. Since the Merc went public in December 2002 with its shares listed on the New York Stock Exchange, the stock has risen nearly six-fold, and it has stayed in the top 10 of NYSE performers.

In effect, the CME transformed itself from a tradition-bound club with the image of a raucous den where men shouted at each other to get an edge on the public in trading pork bellies. Instead, it became a pioneering company that lets hardly a week go by without introducing a new electronic product designed to give the public more ability to improve and hedge their ownership of stocks and debt.

The table below shows how acreage planted and revenues grew at Plymouth, the CME and eBay.

The Plymouth, Chicago Merc and eBay experiences			
Year	Plymouth acres planted	CME revenue*	eBay revenue*
(1621/2000)	26	\$226.6	\$431.4
(1622/2001)	60	\$387.2	\$749.8
(1623/2002)	184	\$453.2	\$1,214.1
(2003)		\$526.1	\$2,165
(2004)**		\$743.8	\$3,260

* In millions    **Analysts' estimates
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The Pilgrims originally agreed with the London merchants who financed their settlement to hold their land and its products in common, a sort of forced socialism, much as the communists imposed on Russia after the 1917 revolution.

And the Pilgrims learned, as the Russians would, that the system led to misery and poverty. Whenever trade and its rewards are permitted, well-being and output improve across the board. The principle is so mundane that it's hard to believe that it could ever be forgotten. But it was. The Soviet economy broke down because people had no incentive to reduce costs, to produce a quality product, to provide the kind of gracious service that an American expects from even a humdrum retailer.

If it weren't for those who risked death — literally — to start private enterprises on the black market, the Soviet system would have collapsed long before it finally did.

Everyone knows a million examples of how people respond to incentives. It's no accident that when President Bush won a reduction in taxes on capital gains and stock dividends in May 2003, the S&P 500 (\$INX) responded with a 27% rise. Incentives to buy stock increased, so prices rose. The after-tax returns from stocks increased, so the public decided to place more dollars into stocks versus the alternatives.

In Plymouth, thanks to the gift of the Land Division of 1623, trade was created, and it did what it has always done:

1. It allowed economic freedom. The Pilgrims borrowed the money to start their colony. Their decision to redistribute the land allowed rapid repayment and the freedom to practice their beliefs as they wished.
2. It financed new enterprises. The Virginia Company of Plymouth served its own interests by lending to farmers, giving the company a chance to increase its agricultural imports.
3. It increased output. When each Pilgrim family gained the freedom to labor as they wished in exchange for the freedom to keep their crop, yields increased.

We believe the successes of the Pilgrims, the CME and eBay are not anomalies. And we will predict success for any company or country that lets people trade as they are predisposed to do by instinct and common sense. If the International Securities Exchange and Chicago Board of Trade follow through on plans to offer shares to the public and if the New York Stock Exchange ever goes public, we'd recommend buying those stocks.