A. POLITICAL DEVELOPMENTS: Status Quo vs. Revolutions; New States
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A. Political Developments: Status Quo vs. Revolutions, New States

A. 1. Status Quo Upheld?

*Concert of Europe*

Congress of Vienna

Although the territorial changes brought about by the Congress of Vienna did not endure long in entirety, they represented a practical if not always equitable solution and an attempt at dealing with Europe as an organic whole. The Quadruple Alliance and the Holy Alliance, designed to uphold the decisions of Vienna and to settle disputes and problems by means of conferences, were an important step toward European cooperation. The Concert of Europe which functioned even though imperfectly through the 19th century, may be credited to the Congress of Vienna. An auxiliary accomplishment of the Congress was the adoption of standard rules of diplomacy. Serious defects, however, included the disregard of the growing national aspirations and the social changes that brought about the revolutions of 1848, and the failure to include the Ottoman Empire in the settlement and to deal satisfactorily with the Eastern Question.

A. 1. Status Quo Upheld? (cont.)

Results of the Congress of Vienna

- Although the Congress has received criticism for ignoring the growth of liberty, equality, and fraternity in Europe, it has received praise for finding a general settlement of a complex series of problems, especially from scholars who favorably compare its work to that of the victorious allies at Versailles after World War I. The representatives were not totally, blindly reactionary: many of the changes of the previous twenty-five years were retained. The forty years of general peace that followed, flawed though they may have been, are testimony to the success of Metternich and his colleagues in gaining stability. But, by ignoring the forces of change, the representatives at Vienna ensured the ultimate failure of the system they created.

A. 2. Revolutions

Revolutions: 1848 as an Example

- The Revolution of 1848 was an international event and, apart from the world wars, the only such event in the West. But it did not affect all of Europe. At least two states - England and Russia, at opposite ends of the continent - remained unscathed. What made these two countries different from the others? The Revolution of 1848 shook those countries in which a bourgeois elite led the opposition against more or less reactionary governments. But Russia had no bourgeoisie and, after the electoral reform of 1832, the English bourgeoisie was no longer in opposition.

- In the first place, then, the Revolution of 1848 was the act of bourgeois liberals. All over the continent, from 1815 to 1848, they sought to defend the privileges they had acquired under the French Revolution and the Empire against a reactionary nobility bent on recovering its former position. These advantages did, of course, vary in importance from country to country. In France equality before the law was no longer an issue; the struggle now centered on property qualifications. Although large-scale industry did not yet exist, progress in production and exchange had been great enough to create a national market. Books and ideas traveled along with the merchandise and united the bourgeois and the artisans from one end of the country to the other.
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A. 2. Revolutions (cont.)

- These growing populations, which were gradually reached by education, formed willing armies in the bourgeois cause. Such support from artisans and workers was only to be expected, since the reign of the bourgeoisie undoubtedly constituted, for everyone, an advance over the absolutism of divine-right monarchy. The bourgeoisie's goal was to establish constitutional governments, which would be more or less concerned with the fate of the masses of peasants and workers, who did not yet realize their own strength.

- National feeling, which the wars of the French Revolution and the Empire had aroused, was also everywhere on the increase. The bourgeoisie was, by nature, less cosmopolitan than the nobility. It knew nothing of the blood ties which united the great aristocratic families; it substituted frontiers for the indefinite border zones which had existed between states in the days of feudal dependencies. Even its culture became more national in proportion as modern languages gained over Latin. The hold of religion over public and family life diminished.

- In Italy and Germany national fervor found expression in the ideal of national unification. But the champions of unification were nonetheless liberals; they wanted a constitutional regime, if not a parliamentary one, one on the model of the south German States, France, and England. For all bourgeois, habeas corpus and the rights of man were a political gospel to which they felt more attached than to any religious gospel. Moreover, liberal Catholicism proved to them that the two were not incompatible.

What does seem strange is that the same demographic movement and the same accelerated economic progress did not continue to produce the same effects in the second half of the century. While the advance of democracy did continue in France and England, Germany became autocratic: 1848 was undoubtedly the closest the German people came to political liberalism in the nineteenth century. Thereafter they moved away from liberalism and took an opposite course to that of the western democracies.

Long-run Impacts

- A sharp split thus came into being between the opposition of 1848 and the new post-1870 bourgeoisie. This development was complete by about 1880: the German bourgeoisie was no longer liberal; its ways of thinking and feeling were the very antithesis of those that prevailed before the revolution.

- And another split came about which was more enduring, more profound, and more fraught with consequences: a split between central Europe and the western nations. In the latter democratic development, after a momentary interruption, resumed under the leadership of the liberal bourgeois elites. In the former it came to a halt: a new, authoritarian tradition was created, dominated by the army, the nobility, and the bureaucracy, which culminated in the capitalist, Prussianized Germany of 1880.
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A. 3. Ideologies Abound

Socialism
- Within the European states, industrialization was producing new social classes: the industrial bourgeoisie and the industrial proletariat. The forces of democracy, initiated by the American and French Revolutions, continued to demand an end to aristocratic rule. Class conflict and mass ideologies were prominent features of the 19th century. Nonetheless, the traditional monarchies and their landed aristocratic allies continued to rule in most countries of Europe at the end of the century. But everywhere, the bourgeoisie was gaining economic strength and demanding its share of political power. Unsuccessful revolutions had broken out repeatedly throughout the century. Monarchs and aristocrats were being forced slowly to make accommodations not only to the bourgeoisie but also to the rising working class.

-Karl Marx (1818-1883)

The philosopher, social scientist, historian and revolutionary, Karl Marx, is without a doubt the most influential socialist thinker to emerge in the 19th century. Although he was largely ignored by scholars in his own lifetime, his social, economic and political ideas gained rapid acceptance in the socialist movement after his death in 1883. Until quite recently almost half the population of the world lived under regimes that claimed to be Marxist. This very success, however, has meant that the original ideas of Marx have often been modified and his meanings adapted to a great variety of political circumstances.

"In Marxist terms, socialism is generally regarded as the period of transition between capitalism and communism - the transition to a system in which we can truly have "from each according to his abilities, to each according to his needs".

*Communism* = the ultimate stage in this process, total state ownership, "democracy"?

-During the period 1850 to 1871, the nation-state achieved its mature status in Europe. Nationalism clearly became the principal basis for the organization of western civilization. This fact had earlier been demonstrated in England and in France during the course of their political revolutions. In this period, it became manifest throughout Europe.

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A. 4. Wars (Examples)

| US/Mexican War | 1846-8 | North America |
| 1st War of Italian Unification | 1848-9 | Europe |
| Taipeh Rebellion | 1851-5 | China |
| Crimean War | 1853-5 | Europe |
| Franco-Austrian War (2nd War of Italian Unification) | 1859 | Europe |
| Garibaldi’s Unification of Italy | 1860 | Europe |
| American Civil War | 1861-5 | North America |
| Austro-Prussian War | 1866 | Europe |
| 3rd War of Italian Unification | 1866/1867 | Europe |
| Franco-Prussian War | 1870-71 | Europe |
| Transvaal or 1st Boer War | 1880-1 | Africa |
| The Spanish-American War | 1898-1902 | North America |
| Great (2nd) Boer War (South African War) | 1899-1902 | Africa |
| Boxer Rebellion | 1900 | China |
| Russo-Japanese War | 1903-5 | Europe |
B. The International Monetary System, 1850-1913

B. 1. Functions and forms of money

Functions of money
- Medium of exchange—reduces transactions costs
- Barter requires double coincidence of wants or multiple transactions
- Store of value
- Unit of account

Forms of money
- Commodity money
  - Most commonly silver, gold, copper; called “specie”
  - Characteristics: scarce, already of value, high value for size/weight
  - Originally, just measured by weight
  - Later minted in coins (potential savings in transactions costs)
    - Problems: clipping, debasing
  - Practicality depends on size of common transactions vs. value of metal
- Token coins—face value greater than intrinsic worth (low-valued metals)
  - Practical units for low-value transactions
  - Problem: often worth counterfeiting (until high-quality presses invented)
B. The International Monetary System, 1850-1913

B. 1. Functions and forms of money (cont.)
- Bank notes
  • Originally private, representing deposits of gold or silver
    • Exchangeable on demand for specie, “as good as gold” (or silver)
  • Later developments:
    • Monopoly of issuance by central banks
    • Fractional reserves (at least in terms of specie)
    • Additional sorts of reserves: foreign exchange, bonds
      (fiduciary issue)
    • Non-convertibility
      • “Forced circulation” in time of war or crisis
      • The norm only since World War II
  • Potential problems:
    • Counterfeiting; fractional reserves→bank runs; lack of restraint
- Bills of exchange
  • More practical than shipping specie, esp. for international transactions
  • = a bank’s promise to pay out specie at a given later date
  • The merchant who receives a bill of exchange as payment
    sells it to someone who can use it to buy goods from country of issue
- Cheques (demand deposits with fractional reserves) still rare in 19th century

B. 2. Rise of Classical Gold Standard
- Earlier, silver standard or “bimetallic” standard common
  • Silver less valuable, thus more practical for smaller transactions
  • Gold used mainly for large transactions
- Problem with a bimetallic standard
  • If official ratio of values of silver and gold ≠ ratio of market prices,
    then only the relatively cheaper money circulates—
    the metal “overvalued at the mint” for conversion into coins
  • The relatively expensive money will be hoarded or shipped abroad, where it is
    worth more
  • Gold discoveries (1848, 1851) and later silver discoveries (1859-.) led
    to swings in world price ratio slightly below and above 15.5, leading to in-and
    out-flows of gold and silver in countries with bimetallic standards.
  *Relative use of gold and silver coins in these countries thus fluctuated.
- Britain adopts gold standard
  • Late 17th century: New supply of gold from Brazil reduces market price
    for gold, making it overvalued at the mint relative to silver. Master of the
    Mint Sir Isaac Newton adjusts official ratio in 1717, but doesn’t go far
    enough. Britain thereafter de facto on gold standard.
  • Made official in 1774 and 1821 with reduced status for silver coins
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B. 2. Rise of Classical Gold Standard (cont.)

- Other countries follow Britain in late 19th century

  - Each country had incentives to adopt same standard as Britain and other commercial and financial neighbors
    *(This is an example of “network externalities”—benefits from adopting a common practice with partners in “network” of economic interaction)*
  - First Germany switched from silver to gold, 1870s
  - Then other countries that traded a lot with Britain and/or Germany: Scandinavia, Netherlands, Belgium, France, Switzerland (1870s)
  - Then less-industrialized parts of Europe
  - By end of 19th century, even Russia, Japan, India, much of Latin America

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B. 3. International cooperation and the stability of the gold standard

- Bank of England
  - Bank of England “called the tune” as “the conductor of the international orchestra” (Keynes), “harmonizing” policies
  - Adjustments in common level of discount rates in response to global conditions
  - Cooperation in allowing differences in discount rates and flows of gold to correct imbalances (for example, not competing for scarce gold)
  - Mutual aid in times of crisis—against threats to convertibility
    - Britain 1890: reserves borrowed from France, Russia
    - US 1893, 1907; Germany 1898; ...
B. 3. International cooperation and the stability of the gold standard (cont)

-A major threat to stability and convertibility: lender of last resort
   - Conflict between central banks’ role as guardian of gold standard and guardian of domestic banking system—“lender of last resort” to private banks in crisis
   - The problem: In late 19th century, rise in fractional-reserve banking (i.e., reserves for bank deposits) made temporary illiquidity and bank runs possible
   - If central bank used its reserves for private banks, they had less for maintaining gold convertibility
   - International cooperation prevented major crisis before 1914 (but not in 1931—more later)
     *Baring crisis of 1890

-Instability at the periphery
   - Several countries had problems maintaining convertibility of currency to gold—or at least suffered from lack of confidence in continued convertibility
   - Political instability: political pressures for inflation, often by monetizing silver; e.g. US until 1896
   - Market instability: swings in commodity prices made adjustment difficult
   - Lack of international cooperation to support currencies on “periphery”
   - Argentina, Brazil, Chile, Italy, Portugal suspended convertibility

QUESTIONS, in writing: (from now on, the attendance questions will be in essay form; the best 5-10 will get half a point of extra credit)

1)

2)
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ANY QUESTIONS ON TODAY’S LECTURE?
ANYTHING ELSE?