A Moral History of Monetary and Fiscal Policies

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INTRODUCTION

MORALITY AND ECONOMICS

Morality represents a component of culture, which changes – not always for the good – as a result of shifts in technology, politics, society, family or individual values. But morality is also exercising a feedback effect, touching all human institutions. Inevitably, economics is also subjected to the influences of a changing morality.

For around two centuries, a debate has been going on between the Kantian school – which defines good in terms of morals – and the Utilitarian school, according to which good is defined in terms of utility/pleasure. Author Mary Douglas (Katherine E. Browne, B. Lynne Milgram, 2009) writes:

> „The debate about how to justify a society's institutions is divided between Kantians, who search for a body of principles that will be universally acceptable to rational beings, and Utilitarians, who being already settled on the principle of greatest happiness are more concerned with the consequences of actions than with derived principles. One side talks about merit and justice and the other about needs and wants."

In Kant's approach (also called the deontological theory), what matters in judging an institution or an action is the motivation underlying it. And **the motivation** needs to be in accordance with the Categorical Imperatives, the great principles that govern the world and the Universe. An example of Categorical Imperative (not to be avoided under any circumstances) is the following: "Always treat persons as ends in themselves, not as means for your purposes". In other words, each individual's life – however humble he or she is – is sacred, being a small piece of this Universe and deserving respect, irrespective of circumstances. Of course, one can notice in such an attitude some influences of Christianity. On the other hand, a proponent of utilitarianism will not hesitate to use/exploit another person, if this brings him or her some gains or benefits. For a utilitarian, the assessment of an institution or of an action is done according to its **consequences**. Another example of Categorical Imperative is: "Your action should be based on universal laws". Here again we can detect Christian influences – universal laws being precepts such as “thou shall not lie, thou shall not steal, thou shall not kill”. We are not exaggerating in saying that the Kantian approach is mainly a spiritual one-envisaging the person’s long-term evolution and the possibility of reward in this life (or in future lives). Opposite, Utilitarianism concentrates mostly on the material gains, obtained for a relatively short period and without any consideration to the existence of soul after death.

Thus, it is of little surprise that in the last two centuries, when we have witnessed a “de-spiritualization” of the world, Utilitarianism has made gains at the expense of Kantianism. An important role to this end was played by philosophers and scientists, who thought religion could be banned from public debate, being only a collection of dogmas and superstitions, and that it can be replaced by reason and measurement. But a similar role was played by economists, who have used extensively the utilitarian theory in order to compare between a (greater) good and a (lesser) bad or to compare different grades of utility.

Up to a point, the congruence between economics and utilitarianism is justified: in a world in which resources are ontologically limited, economic computation implies a cost-benefit (utility-disutility) analysis of each human action. The same as, between alternative uses of a resource, economic computation assumes comparing different benefits (utilities) that could be obtained. Moreover, a recent study (Giuseppe Dari-Mattiacci, Marco Fabbri, 2021) shows that being exposed to private property (as opposed to communitarian property) makes individuals more utilitarian when confronted with moral dilemmas.

An experiment performed in the Republic of Benin has compared the answers given to a moral dilemma, on one hand by individuals that had been given land ownership nine years before, and on the other hand by individuals that had remained in a system of collective use of land exploitation. The moral dilemma (which may be called the “Driver’s Dilemma”) was asking the individuals to choose between: a) to continue driving straight ahead, risking killing two pedestrians; and b) to turn suddenly, risking to kill only one pedestrian.

In the group of landowners, utilitarian calculation was much more obvious than in the case of collectivists; as a result, they chose much more often version b), i.e. killing a single individual in order to save the lives of two others.

On a separate note, the study has revealed that introducing property rights had made individuals much less socially connected (while collectivists continued to obey ancestral norms and tribal connections).

Also, introducing property rights had resulted into the **commodification** of many aspects of life.

It follows from here that the development of capitalism comes with goods (higher independence of individuals, entering interpersonal relation with unknown persons based on a code of laws) as well as with bads (severance of family ties, commodification of certain aspects of life, etc.).

Returning to the “Driver’s Dilemma”, we can notice that a Kantian might argue that both variants are unacceptable, because they entail sacrificing human lives. And because human life is sacred, it cannot have a price and, therefore, cannot be compared with the loss of other people’s lives.

Daily, we are often confronted with such dilemmas (albeit not such dramatic ones). A moral dilemma much more prevalent in modern society is the “Abortion Dilemma”. A father/family head has to choose between: a) keeping the fetus, at the risk of endangering the life of the mother and the future of the existing sibling; and b) aborting the unborn, saving his wife’s life and the sibling’s future. Choosing b) does not yield moral forgiveness; quite on the contrary. But the fact that, most of the times, we make choices of a utilitarian type (preferring to kill one person instead of two), does not morally absolve us in a Kantian/deontological perspective: we will have to live with the guilt and to atone for it until the end of our lives, if we are humans and not mere robots/computing machines.

But a problem arises when more and more of our peers turn into such computing machines, completely neglecting any moral connotations. Utilitarianism has encouraged economic computation and rational decision-taking, but has cast out moral responsibility for many individuals. Entire professions are currently guided by utilitarian principles, rather than Kantian ones: politicians, lawyers, managers, etc. The problem is, however, that other groups also – which in principle should reject utilitarianism – are actually embracing it: professors, journalists, secret services, etc. Continuing along this road can only lead to societal dissolution and catastrophe. When all people are transformed into computing machines, spirituality is banished and mankind condemns itself to disappearance.

Let us recap: on the positive side, utilitarianism accepts personal short-term losses (lower costs) for the sake of longer-term collective gains (larger benefits). On the negative side, utilitarianism justifies eradicating enemies (by class, race, religion, etc.) in order to build a better world for one’s own group. Thus, utilitarianism finds a moral justification of all crimes committed in the name of religion, race, kindred, fascism, communism, white man supremacy, etc. Totalitarianism is the twin brother of utilitarianism.

And another warning concerning the future of democracy: the universal vote is valuable only insofar it is exercised by an educated public, that can discriminate between short-term losses and long-term gains and that – above everything else – treasures the life and dignity of all human beings. Democracy exercised through universal vote, as practiced after World War I, has functioned reasonably well for as long as the degree of education of the public – as measured by the intelligence quotient (IQ) – witnessed an increase between 1905 and the end of the '80s (the so-called "Flynn effect"). But with an increasingly uneducated public, after 1990, and more focused on short-term rewards, democracy degenerates into populism, as Plato once warned. Yet again, education – and especially, spiritual education – is the key to exit such a trap.

If we were to be more specific on this issue, we might argue that the schooling system should be reformed, in order to: a) re-instill the moral code from the Bible's decalogue (which was thrown away together with religious teachings); b) re-define the notion of "greed is good", which resulted from a truncated reading of Adam Smith's "Wealth of the Nations" (and completely ignoring the same author's "Theory of Moral Sentiments", where he states the exact opposite); c) re-read the texts of the stoics (Seneca, Marcus Aurelius, Epictetus), which promote the view of an orderly Universe, guided by moral laws, etc.

In this volume, we try to illustrate the way in which changes in the societal institutions over the last 150 years have influenced – and were influenced by – morality, which in its turn has put its imprint upon monetary and fiscal policies.

We will show that the moral values of the 19th century (the bourgeoisie's advance period) differ from the moral values of the 20th century (the period of the proletariat's advent, both in Western democracies and in Communist dictatorships) and yet again are different from the moral values of the 21st century (dominated by large corporations and consumerism).

Changing morality, from period to period, influences the way monetary and fiscal policies are conceived and implemented, as can be seen in Figure 1.

Conversely, monetary and fiscal policies exercise a feedback whereby they influence one epoch's morality, which in turn affects the technological, political, social and family aspects, i.e. all strands of human behavior.

The time frame of our analysis consists of three periods, mostly defined by this feedback exercised by monetary policy upon all other mentioned aspects.

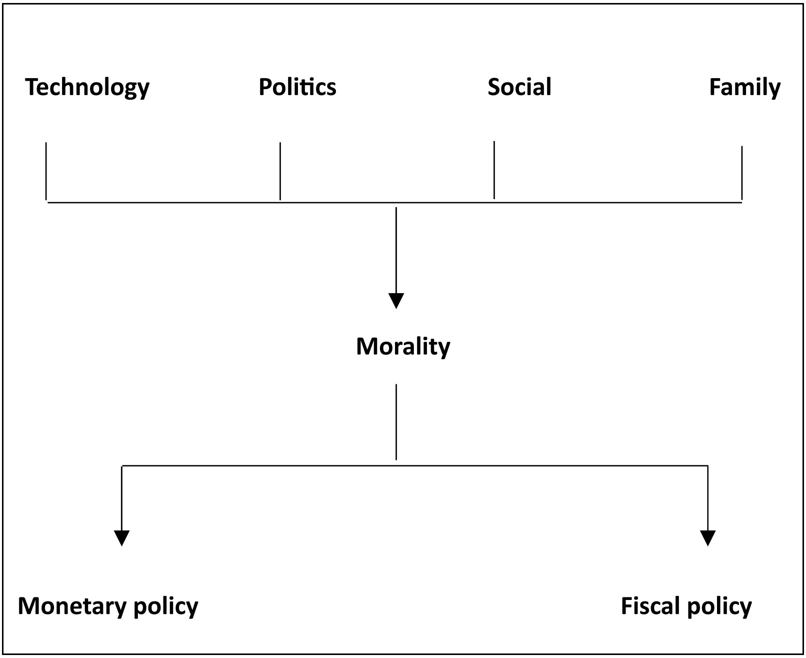

Figure 1. The interaction of socio-economic spheres

First Part

The Bourgeois Morality

1873–1914

CHAPTER 1

THE GOLD STANDARD PERIOD

Officially, this period extends between 1873 and 1914, with the caveat that some countries have adopted the gold standard much earlier. For instance, Great Britain has *de facto* adopted the gold standard in 1717, by accident: Sir Isaac Newton, who was at that time the head of the Royal Mint, fixed the silver-gold parity at the level of 15.2 silver units per one unit of gold, while on the free market the exchange rate was around 15.5:1. Thus, an official over-appreciation of silver resulted and, according to Gresham's Law, the bad money drove out from circulation the good money. In this case, the bad/depreciated money (gold) has chased away from circulation the good/appreciated money (silver). The reason was straightforward: people preferred to hoard the silver coins and then to sell them at the official price, rather than to use them in daily transactions at the market price. Thus, although Great Britain had *de jure*, until 1821, a bimetallist system (gold and silver), *de facto* the system was a monometallic one (gold). Silver's appreciation with respect to gold continued during the 18th century due, on one hand, to increased gold circulation in European countries as a result of more intense mining in the colonies (like the Brazilian Gold Rush) and, on the other hand, to decreased silver circulation in European countries, which were paying in silver for the merchandise imported from China (an anticipation of current trends!).

In 1821, six years after winning the Napoleonic wars (and after the ensuing growth of wealth), Great Britain officially adopted the gold standard, being the first state to adopt *de jure* gold-based monometalism. After 1850, the gold standard was adopted by the British colonies (among them Australia, Canada, British West Indies, New Zealand) and by Portugal, while the rest of the countries continued to embrace bimetallism. But before seeing how the global standard became global, it is worthwhile to briefly describe the way it functions.

The gold standard had a disciplining role with respect to all economic policies, including monetary and fiscal ones. In essence, a state could not print or mint more money than allowed by the gold stock at its disposal. This was the case because any physical or legal person holding banknotes was entitled to ask the bank to exchange them for an equivalent quantity of gold (a feature which would be lost after the First World War). Full coverage of money with gold was guaranteeing two things: that Finance Ministries would not monetize budgetary deficits and public debt, and that Central Banks would not increase the money supply above its gold coverage, which made impossible medium-and long-term inflation. Of course, inflation was possible in the short term, when new gold deposits were discovered and mined and when money issuance grew accordingly, sometimes exceeding the economic growth. But in the medium and long run, inflationary periods were succeeded by lengthy periods of price stability or even deflation, without the latter being considered a calamity, like in the present days.

A country that was suffering a loss of competitiveness (exported less/imported more) saw its gold reserve diminish (as a result of payments for imports). Diminished reserves brought with them a reduction in money supply, which resulted into price reduction (deflation) and, sometimes, into wage reduction, up to a point where the merchandise (which grew cheaper) became once again internationally competitive, the respective country's exports went up, gold reserves were restored and, with them, the money supply in the economy. No wonder, then, that during the gold standard, average annual inflation in the USA hovered around 0.1%.

Beside the adjustment mechanism through the real economy, presented above, there existed a subsidiary financial adjustment mechanism: a country that was losing gold reserves could increase its monetary policy rate (or the discount rate) in order to attract new capital. This can explain the fact that, during the gold standard period, the average annual discount rate in the USA stood at around 5%. Such an elevated interest rate, combined with a very low inflation rate, had both positive effects (stimulating savings and internal capital accumulation; selecting only profitable investments, with yields that could easily repay the interest on the contracted debt) and negative effects (putting a brake on economic growth). But at that time the world was not obsessed – as it currently is – with annual GDP growth; the concept had not been invented yet. Moreover, mankind was leaving behind eighteen centuries in which individual wealth had barely grown and mass consumption had not yet become the main goal of economics. People were content with little and were happy if they could offer their children a marginally better perspective in life than their own.

After this brief description of the gold standard functioning, let us return to its history. We can say that its global outreach in the last quarter of the 19th century was due to several factors. On one hand, new gold mine discoveries in California, in 1849, and in Australia, in 1851, have considerably increased the global supply of gold, resulting into an additional appreciation of silver and effectively withdrawing it from circulation in many countries.

On the other hand, adopting the gold standard often meant an upgrade to the status of great power, especially after winning a war. Thus, the German Empire adopted in 1871–1873 the gold standard, after the victory in the Franco-Prussian War. The passage to the gold convertible *Reichsmark* also meant monetary unification (through conversion of thalers and guldens into the new currency).

Things developed similarly in the United States, which adopted the gold standard in the same year, 1873, after the northern states' victory in the Civil War and having as a result the monetary unification of the greenback dollar from the north, of the confederate dollar from the south and of the already gold-convertible dollar from California.

Table 1-1 displays the adoption of the gold standard in the most important European and non-European countries.

It is remarkable that not only victorious states, but also vanquished states, such as France, after the Franco-Prussian War of 1870, or Türkiye, after the Russian-Ottoman War of 1877–1878, felt the need to adopt the gold standard, despite the war reparations that diminished their gold reserves. The reasons were, on one hand, the need to participate in the international capital flows and, on the other hand, the confirmation of great power status.

Worth emphasizing is that, briefly after France, all member states of the Latin Monetary Union (Belgium, Switzerland, Italy, Greece) adopted the gold standard. With regard to Romania, it adopted (not accidentally) the gold standard the same year as Austria-Hungary (1892) and maintained it without depreciations until WWI. The fact that, for more than two decades, the young Romanian state has maintained the gold convertibility of its currency without significantly devaluing it and without defaulting showed its resolve to be part of the respected nations of the world.

The most important consequence of gold standard generalization was the globalization of the economy, also enhanced by the Second Industrial Revolution, with its progress in the areas of transportation and communication. An integrated world economy, with tightly tied exchange rates, implied a global determination of prices, interest rates and incomes. In its turn, the globalization of trade – having at its center Great Britain, the hegemonic power of the time – allowed a peaceful coexistence of nations and a long peace period in Europe in what came to be known as "La Belle Époque".

Table 1-1. **Years of gold standard adoption in different countries**

Year	**Country**	**New currency (gold–convertible)**
1821	Great Britain	Pound sterling
1854	Portugal	Real
1871–1873	Germany	Reichsmark
1873	USA	Dollar
1873–1878	France	Franc
1898–1899	India	Rupee

Compiled from Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 3rd Edition. Princeton University Press 2019.

CHAPTER 2

EXTERNAL INFLUENCES UPON THE BOURGEOIS MORALITY (1873–1914)

Broadly speaking, the 19th century was dominated by the Kantian approach, according to which good is defined as moral (in accordance with the laws that govern the Universe). But this concept started to be challenged by the utilitarian worldview, according to which good is defined as useful/pleasant for an individual. This hedonistic approach would slowly gain supremacy, being also helped by profound changes in technology, politics, social and family life.

By far, the most important influence upon mentality change would be played by technology, through the amazing progress achieved during the Second Industrial Revolution (circa 1880–1914). The inventions of this period (the automobile, the plane, the steamboat, the electric bulb, the phonograph, the telephone, the radio, the cinema, the skyscrapers, etc.) would increase comfort on a scale not witnessed ever before or after this period. But all of these would have not been possible if not sustained, to a large degree, by inventions from the First Industrial Revolution (circa 1790–circa 1880), mainly the train and the telegraph.

The train's appearance has radically changed citizens' life. First, it has transformed long-distance journeys from a chore (the English *travel* stems from the French *travail*) into a pleasure: mass tourism has allowed people to interact with citizens from neighboring countries with whom they previously had barely any contact. Second, the train has imposed the unifying of time, at first within each country (initially, each town in Great Britain had its own hour, uncorrelated with the rest of the country) and afterwards on an international level, through the adoption of the GMT (Greenwich Mean Time). Thus, one can argue that the train has unified not only space, but time as well. Third, the train has contributed to the forging or to the strengthening of the national consciousness, allowing newspapers to reach the farthest regions of a country during the same day.

But all of the above would have been impossible without the progress achieved in the steel technology via the Bessemer process, later complemented by the Siemens-Martin process. The rails made of steel were incomparably more durable than the initial ones, made of iron, which needed replacement every six months. The steel rails ushered in stronger locomotives and longer trains, with all the benefits for transportation.

The other great invention of the First Industrial Revolution, the telegraph (first introduced in 1837 in Great Britain) has allowed a quick circulation of information, an essential element in the development of capitalist production. This process was accelerated in 1866, once the first telegraph cable between Europe and America was laid on the bottom of the Atlantic Ocean.

The Second Industrial Revolution, which largely overlaps with the Gold Standard period, has continued and amplified the previous period's inventions.

Karl Benz patented his first automobile in 1886 and made it commercially available in 1888. On the other side of the ocean, Henry Ford built his first car in 1896 and began selling it in 1903. Of great help was the invention of tires by John Dunlop in 1887, as well as the use of gasoline (previously, an unwanted byproduct of oil refining).

The first plane (Éole) was built in 1886 by the French Clément Ader, who succeeded, in 1890, a takeoff on a distance of around 50 meters, but at a height of only 0.2 meters. The first internationally recognized flight was that of the American Wright brothers, in 1903. However, commercial use of planes would have to wait until the end of WWI.

The steam turbine developed by Charles Parsons in 1884 has revolutionized maritime transport. Together with the opening of the Suez (in 1869) and Panama (in 1914) canals, it allowed a previously unseen shortening of delivery times. For the first time, a middle class citizen from America or Western Europe had access in the shortest possible time to merchandise coming from Asia, Australia, or other remote areas. The First Globalization of the world was taking place and, with it, the establishment of a long period of peace, with trade taking the place of guns.

Electrification, called "the most important engineering achievement of the 20th century", made its debut in the period under our scrutiny. The electric bulb, concomitantly invented, in 1879, by the American Thomas Edison and by the British Joseph Swan, would lead to street and house lighting, thus prolonging the time earmarked by individuals for study or leisure. Equally important, electric lighting would enable work in three shifts, making the diurnal cycle irrelevant for production.

To this end, an important role was played by the building of the first hydroelectric plant at Niagara Falls, in 1893, based on the discoveries of the Serbian Nikola Tesla. He succeeded in transmitting alternative current, thus replacing the direct current that Thomas Edison had (wrongly) put his stakes on. As a result, Tesla came to be considered the inventor of electrical industry.

Edison had acquired his inventor fame a few years before, in 1877, with the invention of the phonograph, the first device to record and play sounds. The phone was patented in 1876 by Alexander Graham Bell. That same year, Edison started his work on the carbon microphone of the telephone. In 1896, the Italian Guglielmo Marconi patented the radio and in 1901 he performed the first transatlantic communication without wire.

One of Edison's assistants, William Dickson, started in 1889 work on a first device for rendering images, the kinetoscope (in fact, a black box where a moving image could be seen during half a minute). But this would be superseded in 1895 by the cinematograph, an invention of the Lumière brothers. This invention would prove overwhelming for popular culture and would be used by the elites in order to mold and enlist the common people's thinking, through newsreels and propaganda films.

Steel structures allowed the building of the first skyscrapers, starting in 1885, in Chicago and New York. Chicago had itself been a product of the railway, developing as an essential railway hub towards the Wild West and increasing its population from 30,000 inhabitants in 1850 to 300,000 in 1870. Skyscrapers would not have been possible without the invention of the elevator, first driven hydraulically and then by electricity.

As a result of this bonanza in inventions, the middleclass citizen of around 1900 enjoyed more instruments and facilities than all the crowned heads in history. This cornucopia, pouring over a short period, was to fundamentally change the individual's approach towards life and towards community. The strict moral criteria of hitherto become relative; religion is gradually displaced from daily preoccupations: a "disenchantment" of the world gradually takes sway. Individuals become autonomous, but atomized. The avalanche of new goods and services starts to give birth to a sentiment of entitlement, which was to grow in importance up to our days. The Kantian morality loses its first battle in the fight against utilitarianism.

Tightly connected with changes in technology, there were shifts in the sphere of **politics**. As David Ames Wells (David. A. Wells, 1890) was showing, technological progress has induced reductions in storage, elimination of the middlemen, the decline of craftsmen, the dislodging of agricultural workers, but also positive effects such as increases in productivity, economies of scale, price reductions in advanced economies.

The bourgeoisie, which had taken the place of aristocracy as a dominant class already from the beginning of the 19th century (often, by way of marriages with destitute aristocrats' daughters), is consolidating its power.

Wealth passes from landowners to capital owners. Meritocracy and wealth obtained through work slowly start to replace privilege achieved by birth. True, a part of the bourgeoisie takes over aristocracy's bad habits, preferring a luxurious life to an industrious one, a practice that would be put to an end by WWI, which brought in its aftermath a levelling of incomes and of wealth. On the other hand, the most entrepreneurial representatives of the bourgeoisie set the foundations of genuine business empires, later transmitted from generation to generation, such as the Rockefeller dynasty (in the oil industry) or the Morgan dynasty (in banking). Their power and domination in the USA became so great, that the American society had to dismantle their monopolies through the anti-trust laws: the Sherman Act (1890), the Clayton Act (1914), and the Federal Trade Commission Act (1914).

On the other side, the working class organizes itself, especially in Europe, into parties dominated by the Marxist ideology. The zenith of the ideology would be reached in the period of the Second International (1898-1914).

However, the proletarian revolution heralded by Marx did not take place, for a multitude of reasons:

a) Far from impoverishing the workers, technological progress made their life easier, allowing them in the last quarter of the 19th century to live much better than in the previous quarter of the century, when Marx had issued his prophecies.
b) As Leszek Kołakowski (Leszek Kołakowski, 2022) writes,

> "The influence of Marxism was least strong in Britain, the country in which its basic doctrine had been formulated [and which was the hegemonic power of the world, o.n.]; British socialism owed far more of its character to the ideas of Owen, Bentham and J. S. Mill".

   Even less widespread was Marxism in the USA.
c) Trade unions still represented an autonomous force, independent from workers' parties, having a non-revolutionary agenda and being interested in improving the working conditions rather through dialogue with the employers. The submission of trade unions by workers' parties would become reality only in the 20th century, in the Communist countries.

During this period of history, there existed trends that tried to combine the theory of proletarian revolution envisaged by Marx with the moral commandments preached by Kant. Such a group were the Austrian

Marxists, exponents of ethical socialism. According to the same Leszek Kołakowski:

> "…those of Lenin's school appealed purely to class interests and not to intellectual principles independent of class. The Austrian Marxists took a precisely opposite view, appealing to all rational minds and not only those who were interested in the theory by reason of their class position [….]. To be a Marxian socialist it was sufficient to think aright and to respect humane values that were not those of any particular class, but would be embodied most perfectly in socialism".

How were they hoping to reconcile the irreconcilable (i.e. proletarian revolution and humane values)? Their arguments would be the following:

> "Kant, for instance, opposed all hereditary privilege; he was against national oppression and standing armies and in favor of popular representation, the separation of Church and State, freedom under law, and a world political organization. He regarded revolution as legitimate if its aim was to secure freedom".

What freedom was on the minds of Orthodox Marxists, we know very well by now and – in this light – the hopes of Austrian Marxists look extremely naïve to us.

Another area where technological progress had a decisive impact was external policy. Only recently out of several convulsions (the Prussian-Danish war of 1864, the Prussian-Austrian war of 1866, the Prussian-French war of 1870, the Russian-Ottoman war of 1877–1878), Europe was in need of peace. But achievements in the fields of transport and telecommunication, as well as in medicine (quinine had been discovered in the fight against malaria) have opened wide the doors to imperialist competition for the conquest of Africa. In the early 1870s, all the important politicians (Bismarck, Gladstone, Clemenceau) were opposed to imperialism, but eventually gave in to the economic and geostrategic arguments:

Africa represented a huge outlet market, potentially yielding important commercial surpluses.

The African continent was supplying a multitude of raw materials (diamonds, gold, tin, ivory, natural rubber, palm oil, cocoa, tea, etc.).

African colonies were providing soldiers that the metropolises could send into battle instead of their own citizens.

Great Britain was interested in controlling all of East Africa, in order to secure its transport routes towards India, Australia, New Zealand. But as the scramble for new colonies could degenerate into a conflict between European powers, the Conference of Berlin (1884–1885) was summoned, where the dividing of Africa was agreed, together with the rules for avoiding possible conflicts. Thus, if in 1870 only 10 percent of African territory were under European domination, by 1914 some 90 percent of the territory were under European control, the only exceptions being Ethiopia and Liberia.

For the Africans an epoch of sheer exploitation ensued; it is estimated that around half of Belgian Congo's population died because of exploitation, as well as a similar proportion of French Congo's population. Also, the two British-Boer wars have made numerous victims, both among the whites and the blacks. One should not forget also the extermination of the Herero warriors of Namibia by German colonists (1904–1908), the Italian-Ethiopian war (1895) and other deadly events. All these atrocities have alerted the European public opinion, giving rise to the first movements for slavery abolition in Madagascar (1896), followed by Sahel (1911). This sentiment of White Man's guilt was later to endure for centuries and to transform itself, in current times, into a positive discrimination whereby the grand-grandchildren of ex-slaves deserve – only based on this criterion – to occupy a privileged position in society, irrespective of their talents and endowments. In other words, a perverted form of morality, which tries to compensate for past mistakes by overreacting in the present.

In the **family** sphere, the end of the 19th century continues to present the classical family as the basic cell of society. As a rule, the woman is relegated to housekeeping even in poor families, whereas the man is tasked with earning money for the household. Only in exceptional cases (death of the husband, his invalidity or sentence to jail), the woman had to enter the labor force in order to provide for the family. Some professions (engineer, physician, lawyer), considered "manly", were prohibited for women. Nevertheless, their confinement to the role of housewives had a positive influence upon children's education, whom the mother could devote more time to. Doubtless, women were discriminated at the working place, earning less than men for equal work (another obsession of those who today want to compensate for the wrongs of the past through positive discrimination). A first step towards a more equitable retribution was made during WWI, when women took in the economy the place of men on the frontline. Moreover, in most of the countries, women were not allowed to vote, which led to protest movements, such as the suffragettes in Great Britain, at the beginning of the 20th century.

This short overview of external influences upon the bourgeois morality in the period 1873–1914 will allow us to further analyze the said morality in the economic field.

CHAPTER 3

BOURGEOIS MORALITY IN ECONOMICS (1873–1914)

What we chose to label "bourgeois morality" is not a phenomenon specific to the bourgeois representatives who, in the said period, were consolidating their positions, but should rather be seen as a worldview shared, to different degrees, both by the representatives of soon-extinct aristocracy and by the working-class representatives who were on the ascent. It is a sort of *Weltanschauung* taking center stage in that period, irrespective of the class belonging of the individual.

We shall analyze this bourgeois morality (defined in a broad manner, as above) in relation to three economic concepts: work, debt, economic crises.

At the end of the 19th century and beginning of the 20th century, **work** continues to be viewed – including by Marxists – as an unpleasant chore, which degrades the human being and should rather be avoided. This is in opposition to work in the future socialist society, presumed to have constructive traits for human personality. On the other hand, there subsist some remains of aristocratic mentality, according to which the individual should not work a single day of his life and – based on inherited wealth – should live in pleasure and delight. No wonder then that, under these circumstances, the purely bourgeois, meritocratic mentality of promotion through work has difficulties in gaining ground.

Thomas Piketty shows (Thomas Piketty, 2015) that a young bourgeois man of the 19th century could make a fully rational economic computation, whereby a marriage of convenience with the heiress of a fortune could bring him more money than he could possibly earn in a lifetime of honest work.

The existence of large wealth transmitted through inheritance made work to be perceived neither as something mandatory, nor as bringing accomplishment (with the exception of a lucky minority, who found their calling through work). This worldview was to be demolished by WWI, which, broadly speaking, would destroy inherited wealth and income inequalities, giving work a new meaning.

With regard to **debt**, the bourgeois morality rests on the idea that "debts are always repaid".
What does this mean from an economic point of view?

a. From the **individual**'s perspective, the debtor not honoring his debt (towards banks, state, other private individuals) risks going to debtors' jail. Here, he would perform labour which partly will go towards covering the cost of his maintenance in prison and partly towards the debt until full repayment.
b. From the **firm's** perspective, during a long time in the 19th century the concept of unlimited liability was applied, according to which the bankrupt firm's owners were liable to their creditors with their full wealth (and, if needed, with their freedom as well).
c. From the **advanced countries**' perspective, budgets needed to be, in principle, balanced or on a small surplus. The only circumstance when a deficit was accepted (and financed through borrowing) was in case of a major war. But, even then, after the end of the war, the incurred debt had to be repaid as soon as possible, in order to regain the state's respectability. And the way repayment was done was through sizeable budgetary surpluses (budgetary revenues well in excess of budgetary expenditures), allowing not only the payment of interest due, but also the reimbursement of the principal, via a primary surplus[1]. We will see how much this stance influenced the fiscal policies of the time.
d. From the **developing countries'** perspective, not honouring the incurred debt could lead to the loss of control upon their public finances, which entered under creditors' control, as it happened with Egypt in 1875, the Ottoman Empire in 1882, Serbia in 1895 and Greece in 1898. Ultimately, not honouring debt obligations could result even in the loss of a country's independence, as was the case with Egypt in 1882, when it was occupied by British troops.

From the mentioned examples one can see that, in the period 1873–1914, any default on a debt payment was considered a grave moral offence, bearing harsh penalties. The whole economic life was modelled around the concept of debt honouring, including monetary and fiscal policies. An important corollary of this idea is the concept that both profits and losses

[1] The primary surplus represents the positive difference between budgetary revenues and budgetary expenditure after deducting from the latter the interest paid on public debt.

remain private (i.e. belong to the entity that has generated them). In other words, no physical or legal person could expect the state to intervene in her favour, by taking on her losses and socializing them through the budget, by distributing them to the broad public. Thus, the equity principle was observed while, at the same time, moral hazard was prevented.
The public attitude towards **economic crises** in the period under scrutiny was modelled by the following characteristics:

a) Crisis periods were accepted as inevitable, alternating with periods of economic growth, as in the biblical story of the Pharaoh's dream: "seven weak cows following seven fat cows".
b) The world was not obsessed with yearly growth of the Gross Domestic Product (a concept invented by Simon Kuznets only in 1934).
c) The world was not horrified by deflation (albeit the increased burden on the debtors' shoulders), mainly because the "living on debt" concept had not yet been invented, so there were few debtors.
d) In the fight between price decrease and wage decrease, what mattered was for the second term to be smaller (in module), so that the real wages would rise.
e) People were not suffering from money illusion, i.e. from the belief that by printing and distributing more money it would be possible to create more welfare. The Gold Standard rendered unimaginable money printing without a counterpart.

Under these circumstances, the Long Depression, which started in 1873 and lasted until 1879 (or, according to some authors, until 1896) did not provoke, by far, the same upheaval as the Great Depression of 1929–1933 did.

The Long Depression had different causes in different countries. Thus, in the United States, it was caused by the monetary unification after the Civil War and by the introduction of the Gold Standard, which implied the withdrawal from circulation of a significant amount of banknotes. Moreover, silver mining collapsed, with silver losing the appeal it had during the bimetallist system. The boom in railroad construction (financed through debt) resulted in the bankruptcy of the Union Pacific and Railway Pacific companies.

In Europe, the depression followed the investment boom in Germany and Austria-Hungary, as a result of the French-Prussian war, which had obliged France to huge war indemnities. The Vienna stock exchange crash in 1873 was followed by the fall of other European bourses. Paradoxically, France, which had lost the war, was not very affected by the depression, since it had witnessed a period of deflation and negative economic growth in the period 1870–1873.

In fact, the Long Depression ended in 1879, because the remaining years until 1896 witnessed economic growth. Moreover, the economic slump of 1873–1879 was more than offset by economic growth in 1879–1890 (A. Tylecote, 1993).

If on top of these we add the discovery of new gold deposits, at Witwatersrand (in South Africa) in 1886 or at Klondike (Canada and Alaska) in 1896, we understand why the depression was limited in time. Moreover, the numerous technical inventions of that period have made life easier, to a certain extent, for a large part of the population.

The wages in the United States have fallen by roughly a quarter during the period 1873–1879, but prices also dropped considerably in the same period, so that the diminishing of the real wage was bearable. On top of this, they were coming after an increase in wages by around a quarter between 1865 and 1873, in the boom period that followed the Civil War. And the wage gains that followed between 1879 and 1896 have more than compensated the mentioned reductions.

The interplay between deflation and lower wages, plus the avalanche of technical inventions, have made authors such as George Selgin (George A. Selgin, 1997) to affirm:

> "…[Great] Britain did not end up paralyzed by strikes and lock-outs….Instead of inspiring large numbers of workers to go on strike, falling prices were inspiring them to go shopping".

Of course, deflation was not at all kind to those indebted (few, at that time), nor to those who had lost their working place as a result of technical progress. But this does not mean that deflation is the seven-headed monster as presented in our days.

Overall, the Gold Standard system was accepted by the public as one which was ensuring long-term economic growth, a stable and low inflation and a disciplining of monetary and fiscal policies. Which does not mean that it didn't have its opponents. For instance, in 1877 the United States witnessed the first nationwide strike, the Great Railroad Strike. In 1893 there was a mini-depression, triggered by the burst of the bubble of over-investment in railway shares.