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**INVESTIGATING FINANCIAL INNOVATION AND STOCK EXCHANGES:
Marx, the Notebooks on the crisis of 1866 and structural changes in capitalism**

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UNIVERSIDADE FEDERAL DE MINAS GERAIS
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Marx, the Notebooks on the crisis of 1866 and structural changes in capitalism^(*)**

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ABSTRACT

Marx's Notebooks prepared in 1868 and 1869 (excerpts from *The Economist* and *The Money Market Review*) are an investigation on the crisis of 1866. Beyond a broad study of that crisis, they are an investigation of an emerging transformation of capitalism. They focus on leading industrial sectors (railways), financial innovations (such as limited liability firms and new types of shares and titles), and follow political measures undertaken in response to that crisis - dynamic new features of a system in its drive for survival. Those Notebooks might be material for a deep revision of his unfinished manuscripts for Volume III.

RESUMO

Os Cadernos preparados por Marx em 1868 e 1869 (notas do *The Economist* e do *The Money Market Review*) constituem uma investigação sobre a crise de 1866. Eles são também uma investigação de transformações em curso no capitalismo de seu tempo. As notas focalizam setores industriais líderes (ferrovias), inovações financeiras (empresas de responsabilidade limitada e novos tipos de ações e títulos) e acompanham medidas políticas tomadas em resposta a essa crise - novos recursos dinâmicos de um sistema que se transforma. Esses Cadernos podem ser material para uma profunda revisão dos manuscritos inacabados do Volume III de *O Capital*.

Key words: Karl Marx; MEGA; financial innovation, phases of capitalism.

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INTRODUCTION

This paper suggests that Marx's Notebooks B102-B108, B101-B109 and B105-B113¹ constitute, in themselves, a systematic investigation on the crisis of 1866. In this sense, one may compare the effort undertaken in their composition to Marx's earlier notes on the Reports of British Parliament on the crises of 1847 and 1857, which were used in *Das Kapital's* Volume III. Prepared between 1868 and 1869, these Notebooks may also be read as notes that complete an analysis of the sequence of capitalist crises – 1847, 1857, and 1866 – that had been witnessed by the author so far in his adult lifetime.²

These Notebooks on the crisis of 1866 had as predecessor the Notebooks on the crisis of 1857. This might indicate that Marx preparing the Notebooks on the crisis of 1866 benefited from his previous organization of data and information on specific crisis. Block and Hecker (1991), Hecker (2015), Krätke (1998) and Mori and Tamaoka (2015) describe the Notebooks of 1857, their scope and their significance. Those papers allow a comparison between the two sets of notebooks. In 1857-1858, Marx prepared the notebooks during the crises, used the data and information for his articles for the *New York Daily Tribune*, and the notebooks were prepared between the beginning and the end of his elaboration of the *Grundrisse*.³ In 1868-1869 Marx prepared the notebooks after the crisis of 1866, did not use those notes in any known work (Takenaga, 2014, p. 54). Both Notebooks (1857 and 1866) may be material for further use - "storage of knowledge", to use an expression suggested by Michael Heinrich during the debates of the session on the notebooks (Tokyo, 28 March 2015).

However, the Notebooks of 1866 might have been more than an important and rich "storage of knowledge". Given the size, detail, and organization of Marx's readings from selected newspapers (specially *The Economist*⁴ and *The Money Market Review*⁵), as shown in these Notebooks, one may also suggest that they were made in preparation for further editorial work on Volume III of Marx's *magnum opus*. The topics broached in the Notebooks are deeply in line with his 1863-1865 manuscripts for Part V of Volume III. The thread unifying these different stages of Marx's investigation may be his studies on capitalist crises and the role played therein by the credit system. The topic of crises connects observations, both theoretical and empirical, that are presented in different parts of volume III, such as

¹ The double numbering refers to the different archival codes assigned to each Notebook. The first number is the one written directly in the Notebooks, and used in Takenaga (2014), whereas the second one refers to the classification found in the index to the "Karl Marx/Friederich Engels Papers", prepared by the IISG. In this paper, whenever we use only one of these numbers, we are referring to the IISG classification.

² To our knowledge, contrary to the crises of 1847 and 1857, there was no Parliamentary Report on the crisis of 1866. A visit and a search in the archives available in the British Library (in October 2015) only led to a Parliamentary Report on the Limited Liability Act of 1862 - a financial innovation close related to the nature of the crisis of 1866. Marx was aware of this Parliamentary Report, according to his excerpts of *The Economist* and *The Money Market Review* - both newspapers did notice the beginning, the works and the report of that Parliamentary Commission.

³ Hecker (2015) suggests that Marx prepared his notebooks between November 1857 and January 1858, while the *Grundrisse* were written between July 1857 and May 1858 (Krätke, 1998, p. 11).

⁴ See: https://store.economist.com/Group-The_historical_archive.aspx.

⁵ According to the *Dictionary of Nineteenth-century journalism in Great Britain and Ireland* (Brake and Demoor, 2009, p. 421), *The Money Market Review* (TMMR) appeared on 9 June 1860, "advertising itself as a 'high-class weekly journal exclusively devoted to the consideration of commercial and financial topics'". Still according to Brake and Demoor, the publication "boasted insider knowledge displayed in detail articles on stocks, shares, and the finances of various public companies, including railways, banks and mines". In 1914 it merged with the *Investor's Chronicle and Journal of Finance*, and was renamed *Money Market and Investor's Chronicle*. In 1967 it once again merged with the *Stock Exchange Gazette*. According to Wikipedia, in 1978 it became part of the *Financial Times* Group (see <http://www.investorschronicle.co.uk/>).

section III (the tendential fall of the rate of profit) and section V (money, credit and finance in the global dynamics of capitalism).⁶

This paper also suggests that Marx, since the Manuscripts and the first edition of *Das Kapital*, recurrently stressed the changing nature of capitalist crises – crises are not the same, they take different shapes, have different causes and unfold in different ways. Marx was dealing with a capitalism that was changing rapidly, as he comments in various places⁷, and those changes might have implications for the nature of crises. That is why, since his very first comments on the crisis of 1866, Marx highlighted what was new: the crisis now assumed "einem vorwiegend finanzieller Charakter"⁸ (MEGA2, II.5, p. 540). Later on, during the crisis of 1874, Marx would stress that "the present English industrial crisis" presented phenomena that were "this time singular, in many respects from what they were in the past" (Marx, 1874).⁹

Finally, the paper also aims to show that, in the course of his investigations – as shown in his notebooks – Marx was critically dealing, directly and indirectly, with the contemporary literature on the 1866 crisis and its aftermath. In this sense, Marx was at least partially involved in the same intellectual *milieu* from which emerged both Juglar's (1862; 1892) works on business cycles and Bagehot's (1873) study on financial regulation.

In order to support these three claims, the paper is divided in four sections. The first section locates the unfinished Volume III of *Das Kapital* within Marx's larger intellectual plans, highlighting how the MEGA2 project has been enhancing our understanding of his efforts towards completing his planned work. The second section deals with Marx's work on Volume III, showing how the analyses of the crises of 1847 and 1857 found in Part V might serve as a guide for his investigations of the 1866 crisis. This section describes the level of theoretical elaboration already achieved by Marx when the crisis of 1866 broke out, which served as a framework for the analysis of this new episode, as evidenced by the very specific focus of his investigations at the British Museum between 1868 and 1869. The third section is a short note on the nature of the crisis of 1866, stressing the singularity of its financial nature and highlighting the new role that stock exchanges were coming to play in that context.

The arguments in the first three sections prepare the ground for section four, which presents a summary of Marx's readings from *The Economist* and *The Money Market Review*, as indicated in Notebooks B108, B109 and B113. The starting point for this section is Professor Susumu Takenaga's major stroke at unraveling the articulation and organization of Marx's notebooks B102- B108, B101- B109 and B105-B113. As Takenaga (2014, pp. 45-55) has shown, Marx composes the indexes (*Register*) to his notes thoroughly and in a *crescendo*, leaving footprints of his progress towards a fuller interpretation of the 1866 crisis in the process. We deal, basically, with the outline prepared by Marx in

⁶ For the connections between the tendential fall of the rate of profit and monetary issues, see MEGA2, II.4.2, p. 502, p. 531.

⁷ The increasing size of the accumulation of moneyed capital (MEGA2, II.4.2, p. 503), new forms of property such as shares, state debts, and others (MEGA2, II.4.2, p. 530), and their impacts on the structure of bank reserves (MEGA2, II.4.2, p. 520, pp. 524-525).

⁸ "[...] an especially financial character" [our translation].

⁹ MEGA2, II.4.2, p. 622: references to 1825, 1837, 1847 and 1857. "One major cause of the 1847 crisis was the colossal saturation of the market and the boundless fraud in the East India trade" (Marx, 1894, p. 618; MEGA II.4.2, p. 533). And for 1857: "1857 bracht die Crise in United Staes aus. Efflux von Bullion aus England nach America. Aber sobald die Crise in America geplatzt, Crise in England und Efflux von bullion aus America nach England" (Marx, 1894, p. 623, MEGA2. II.4.2, p. 545).

the index found in notebook B101-B109 (pp. 286-287), which illustrates broad lines of the reasoning behind Marx's interpretation of the crisis, given the material he could collect and read. The index for his excerpts from *The Money Market Review* (B101-B108, pp. 285-287) provides a connecting point between his previous and later excerpts (B102-B108 and B105-B113).

The paper suggests, in conclusion, that the Notebooks of 1868-1869 help Marx to take a further step in his understanding of crises - an elaboration under constant making and remaking, aimed to deal with the dynamic new features of capitalism in its drive for survival - and might have been an essential material for a revision of Volume III. Therefore, Volume III may not be fully understood without the reading of those Notebooks.

I. MEGA2, VOLUME III: METHOD AND NEW INVESTIGATIONS

The incomplete nature of Marx's "critique of political economy", taken as a culmination of his work, has raised quite a few controversies and discussions. The MEGA2 project, however, has significantly expanded our access to Marx's writings, and the comparisons it now allows between published and unpublished material – notes, clippings, statistics, and other documents preserved by Marx – has greatly enhanced our subsidies for a comprehensive understanding of his work. When we follow the way in which Marx used the notes and analytical schemes resulting from his constant reading of different sources, we may now question the hypothesis that Marx had abandoned the original structural plan of his work, drawn up in 1857, which foresaw the preparation of six books. Rather than recasting Rosdolsky's (2001) precious lesson on the subject, our intention here is simply to assert its continuing relevance as more advanced the studies from MEGA2 become.

Given this, it seems more useful to look for evidences of the firm consistency with which Marx pursued his theoretical project, scrupulously observing a method based on two orders of dialectical movements. Though distinct in their modes of presentation, these two orders are articulated in the sense that the full actualization of one can only take place through the continuous updating of the other. What characterizes this methodological procedure is the coalescence of a method of presentation and a method of inquiry, in which the first – the form that the critique of political economy must necessarily assume – must be presented as an irreversible journey of the concept, from its most abstract to its most concrete forms. In the case of Marx's critique of political economy, the purpose is to make explicit the journey of capital, the effective subject of capitalism, from its first and most elementary form of existence as a commodity until its overwhelming domination of the world.

Within the structural plan of the project, this moment of culmination would be subject of a book entitled *World Market and Crises*.¹⁰ It would represent the complete actualization of capital as a set of singularities, as the *locus* of difference, of the disruption that arose as a result of the growing dominion

¹⁰ There is today a lively discussion on Marx's plans. Michael Heinrich has put forward an interpretation that there are "two different projects of Marx: the six-book plan with the *Grundrisse* as first draft, and the manuscript of 1861–63 as the second draft, and then as a new project the four-book plan of *Capital* with the manuscript of 1863–65 as the first draft of the first three books (the fourth book never was written, *Theories of Surplus Value* is a quite different project)" (W. Xiaping and M. Heinrich, 2011).

exercised by capital over mechanisms that were earlier left to the free expression of the law of value. As seen by Preobajensky, this dominion over the workings of the law of value, the managing by capital of what earlier promised to be the “truth of value”, leads to the very destruction of the said law:

To the extent that the law of value is the *spontaneous* regulator of the production process in mercantile society, the most complete and characteristic action of this regulatory mechanism demands a more spontaneous type of relations of production, with only minimal changes in this spontaneity through the intervention of organizing principles in production and exchange. [...] The *relatively* more perfect period for freedom of economic competition on a world scale, and consequently more favorable for the workings of the law of value, has been the classical era of capitalism, which preceded the transition to the imperialist stage. [...] The restrictions in competitive freedom also limit the workings of the law of value, causing it to meet with a series of obstacles for its expression, thus being partially replaced with that form of organization in production and distribution which capitalism can attain while remaining capitalism. [...] The law of value is reaching the stage of its own transformation and gradual disappearance through its own workings. (PREOBRAJENSKY, 1979, pp. 171-178)

Marx's dialectical exposition of the critique of political economy begins with the operation of the law of value in its purest form: no concern for the effective differences between prices and values, all production absorbed in the market, and crises considered only as a possibility. This is the territory where Book I of *Capital* unfolds. In Book II, whereas the differences between prices and values are still of no concern, there are now sources of stickiness and disruption interposed between production and circulation, with consequences over profits. In this context, there emerges a view of crises that traces their occurrence to disproportions among different productive sectors (GRESPLAN, 1998).

Book III is the foyer of the emergence of a world of various capitals, where the differences among capitals – their organic compositions and sectoral allocations – and the effective forms of competition and class struggle cease to be assumptions to become part of a concrete capitalist dynamic. Here crises show up as a tendency that can only be counteracted through mechanisms of protection that arrest the law of value, and thus open the way to questionings of the global capitalist order. These may involve the imposition of a managed social order dominated by money and power, or else the actualization of socialism as freedom and equality, but also not excluding the possible emergence of hybrid forms of social organization.

The dialectic exposition of the critique of political economy, the way from the abstract to the concrete, has always been a double-sided path. Oftentimes in the shades, seen as pure contingency, the investigative path of this critical project was, in fact, the original route: a sinuous route, marked by chance, which was traced and retraced several times until, once dominated the itinerary, it could be used as a precise map-script for the exposition of the concept in all its complexity. In Books I and II, one could say that the empirical, the contingencies and the facts, are appeased: they are the living matter that illustrates, confirms, attests, and emphasizes. In Book III, on the other hand, the investigative route takes

command, especially after chapter XV. From this point on, the different kinds of capital become autonomous: commercial capital, in its double condition of mercantile and financial capital; interest-bearing capital, in its various manifestations; capital employed on land and natural resources.

It is well known that Book III remained incomplete, being the object of Marx's attention until the end of his life. The privileged themes of these studies were economic crises; credit and banks; and land rents and agriculture in the United States, Russia, India, and Ireland. As Michael Krätke has stated:

Just as he had done in the fifties, with his studies on the 1857-58 crisis at its peak, Marx, in 1868-69, still produced a full range of his famous books on currency and monetary issues. The most remarkable is that after ten years, in 1878, Marx repeated this feat. In a few months, he once again completed a series of notebooks on the theory and history of monetary relations in the main capitalist countries of the time, including the United States and Russia. And he continued. Between December 1878 and March 1879, Marx took excerpts from a wide collection of recent publications on monetary crises, thus updating his material. (KRÄTKE, 2011, pp. 17-18)

The themes that Marx continued to study after 1867 were not trivial. The choice of economic crises as an object of inquiry meant also opting to learn from the increasing complexity that every outburst of crisis brought along. During his lifetime, Marx still witnessed two further crises, in 1873 and 1882. Equally significant is the choice of the agrarian structures of the United States and Russia as objects for study. In both cases, one faces non-canonical realities. In the US, the agrarian structure tended to conform to the standards of household farming, technically developed but without relying on wage labor. As for Russia, Marx thus saw the traditional forms of its rural life:

The historical situation of the Russian "rural commune" is unparalleled. [...] While it has in the communal ownership of land the (natural) basis of collective ownership, its historical context – contemporary capitalist production – provides it with material conditions already prepared for collective work on a large scale. Therefore, it can incorporate the strengths of the capitalist system without having to pay its heavy toll. [...] It could thus become the direct starting point of the economic system to which modern society tends. (MARX apud SHANIN, 1990, p. 119)

Russia and the United States thus represented alternative ways of capitalist development. Their choice as object of inquiry meant studying capitalism as a heteronomous and complex set, and thus striving to apprehend the concrete as "synthesis of multiple determinations, unity of the diverse".

II. THE DRAFTS OF *DAS KAPITAL* AND THE *EXZERPTHEFTE*: BETWEEN TWO CRISES

The years between the crises of 1857 and 1866 provide a great deal of information on Marx's method of research and, in particular, about the way he employed all his available material in the construction of the critique of political economy in the upcoming years. The period comprises his work on the First International, the first drafts of the second and third books of *Das Kapital*, and the final editorial work and publishing of the first book in 1867.¹¹ In this regard, there are three different aspects to be considered: the Marxian theory itself; the facts that corroborated it (in the form of notes); and the political economy that would be subject of critique.¹² The three dimensions, however, were never perfectly coordinated. Sometimes the focus was entirely on one aspect, the other two being put temporarily aside. This is evident in the posthumous writings, which do not use or quote all the contents of the *Exzerpthefte*. It is not clear how Marx would have quoted or used them; the way he analyzed the crises of 1857 and 1866, however, shows precisely what his theory stood for and how he intended to develop it during the following years.

One point of departure to understand Marx in 1866 and 1868 lies in the years immediately before, when he managed to build the entire logical structure of his economic work, thus changing the way he would analyze the crisis of 1866. In fact, he only did feel able to publish his economic theory after he had in mind its complete framework, what explains the changes in the general plan of the work that took place between 1857 and 1864.¹³ Since Rosdolsky (1968), it became almost common sense to argue that the plan presented in 1866 to Kugelmann¹⁴ was the only one devised since the *Grundrisse*, nine years before. However, after the MEGA edition of the *four drafts* of *Das Kapital*, this point of view must be reassessed, since one can now access in detail the path toward the plan for the three books that Engels would eventually follow in his editorial efforts. Marx wrote plans before, during and after the research he undertook during the period in question. In order to fully understand his approach to the 1866 crisis, we assume two points: first, that Marx had already established, in 1863, a plan for the third book; secondly, that this plan would demand a new research effort when the time came to write the *third draft*, just in the eve of the Panic of 1866.

Although conceived as a response to the crisis of 1857, the *Grundrisse* required a great deal of effort by Marx in order to formulate the preconditions of the entire system – production and circulation (reproduction) of capital – before he could even grasp the more concrete forms of capitalist society. Thus, the incompleteness of the 1857/58 work imposed a limit to the discussion of themes such as credit, capital markets and crisis. The manuscript, in its last pages, contains evidence that Marx had to begin anew, now from a slight different perspective.¹⁵ Three years later, when he wrote the *Manuskript 1861-*

¹¹ The MEGA Project has published four drafts of *Das Kapital*. They are: 1) the *Grundrisse* (MEGA II/1); 2) *Manuskript 1861-1863* (MEGA II/3); 3) *Ökonomische Manuskripte 1863-1868* (MEGA II/4); 4) *Manuskripte zum Zweiten Buch* (MEGA II/11) and *Manuskripte zum Dritten Buch* (MEGA II/14), written between the years of 1868 and 1881.

¹² Not to mention the editorial work by Engels, years later.

¹³ As he says to Engels in the letter of 31 July 1865, about his “dialectically structured writings” and how he would produce them: “But I cannot decide myself about what to send before I have the totality in front of me. Whatever shortcomings they may have, the advantage of my writings is that they are an artistic whole which can only be achieved with my way of not having them print before they are in front of me in their totality.” (MEGA, III/13: 510)

¹⁴ Letter do Kugelmann, 13th October 1866 (in: Rolf Hecker, *Briefe über Das Kapital*, 2010, p. 109).

¹⁵ *Ibid.*, p. 740, which would culminate in the 1859 *Zur Kritik*.

1863, the place occupied by *bearing interest capital* and *credit* was clearer, as one can see in the plans written between 1860 and 1861.¹⁶ These plans would change drastically until 1863.¹⁷

In the *second draft* of *Das Kapital*, Marx was able to grasp the problem in more detail, although the form remained very tentative. In the *Manuskript 1861-1863*, however, the analytical levels are clearer. Indeed, Marx distinguishes the many elements involved in an economic crisis, which might be the outcome of his studies on the 1857 crisis.¹⁸ According to him, the “general, abstract possibility of crisis – means only the *most abstract* form of crisis, without content, without a full motive for it.”¹⁹ David Ricardo and the bourgeois economists had been unable to study the complete phenomenon. Hence, “world market crisis must be comprehended as the actual summary and violent equalization of all contradictions of bourgeois economy”.²⁰ Marx thus concludes: “The more we advance in those spheres, on one hand, we must develop new determinations of this conflict, and on the other hand, their most abstract forms are demonstrated as recurrent and constant in the more concrete forms.”²¹

Such levels of abstraction were only introduced after the methodological revolution brought by *Zur Kritik* of 1859: an economic crisis appeared in the metamorphosis of commodity, money and capital, but should also be considered in lesser abstract levels of analysis. In fact, in *Das Kapital*, a crisis should only be considered after the complete analysis of capital. As Marx points out, “we must depict the process of circulation or the reproduction process *before* we have the complete capital – *capital and profit* – depicted; since we have to describe not only how capital produces, but how capital is produced”. A description of capital is complete only after grasping all categories involved in the unity of production and circulation, or rather production and reproduction. Only then is it possible to describe the complete contradiction within these moments: the economic crisis, the “violent independence of elements that in essence are united”.²²

Marx built his approach to crises based on a critique of bourgeois authors, especially Ricardo. This critique also provided him with an opportunity to discuss business cycles. Indeed, in the *Manuskript 1861-1863*, Marx put together for the first time the categories that underwent violent separation, from the most abstract to the most concrete. By the end of the manuscript, however, Marx had only a limited perspective on the subject.²³ It is interesting to note that the *third draft*, written during the following two years, would take into account many aspects found in the previous drafts, while adding many new elements that would eventually appear in the Engelsian edition of Book III.

¹⁶ MEGA II/2, *Planentwurf zum Kapitel über das Kapital*, pp. 256-263, *Verzeichnis zu dem Zitateheft*, pp. 264-271. At this stage, Marx was still following the plan for six books.

¹⁷ MEGA II/3.5, p. 1861.

¹⁸ This is the opinion of Krätke (1998), p. 19.

¹⁹ MEGA II/3.3, p. 1131.

²⁰ *Ibidem*.

²¹ *Ibidem*.

²² *Ibid.*, p. 1134.

²³ Cf. MEGA II/3.3, pp. 1137ff presents many determinations of a crisis analysis, but without precise conclusions.

II.1. From 1863 to 1865: a possible key of analysis

Shortly after concluding the 1863 plan, Marx drafted what would become the second and third books of *Das Kapital*, from 1863 to 1868.²⁴ Indeed, the *Manuskript 1863-1865*²⁵ contains the most important draft of Book III. Following the plan previously established, it consists of seven chapters: 1) The conversion of surplus value into profit; 2) Conversion of profit into average profit; 3) The law of the tendency of the profit rate to fall; 4) Conversion of commodity capital and money capital into commercial capital and money-dealing capital or mercantile capital; 5) Division of profit into interest and enterprise gains. (Industrial or commercial profit). The interest-bearing capital; 6) Conversion of surplus profit into ground rent; 7) Revenues and their sources. One can easily see that, although much remained to be done, even before the publishing of the first book, in 1867, Marx had a great deal of his “artistic totality” before his eyes. In addition, even though he had developed many themes in the two first drafts, this was the first time that they were part of a logically coherent whole. According to the MEGA editors, the *Manuskript 1863-1865* took great advantage of previous excerpt manuscripts, specially the *Londoner Hefte*. Some of these consisted in an analysis of the crisis of 1847 and related monetary issues.²⁶ When the time came to study the crisis of 1866, Marx had already established the main structure of his theory, that is to say, he knew what he was looking for in 1868, when he considered concluding the remaining books of *Das Kapital*. Since the first published edition of the *Manuskript 1863-1865* emerged, more than twenty years ago, the so-called “Marx-Engels problem” has occasioned many debates about the use made by Engels of the drafts.²⁷ It would be pointless to review this debate here. Our purpose is solely to demonstrate how Marx himself followed the plan of 1863, and how complex his efforts would turn out to be throughout 1865 and 1866.

Already in the *Manuskript 1861-1863*, specifically in the section “Revenue and its sources”, interest-bearing capital emerged as the “accomplished fetish”: the formula G-G’ is a synthesis of the entire movement from production (G-W-G), through circulation, the average rate of profit and finally, the ultimate fetish of capital.²⁸ Interest-bearing capital operates, in its surface, in a simpler way than the several productive capitals, whose competitive movements result in the average rate of profit. The interest rate, on the other hand, is a result of a more homogeneous market, the demand for capital itself.²⁹ According to Marx, however, these two movements are by no means estranged from each other, since it is always the price of a commodity that ultimately pays wages, rent, profit, and interest.³⁰ The reification of capital – or fetishism in general – was precisely the point of view of vulgar political economy, which Marx had not yet dealt with when he was drafting Book III in the *Manuskript 1863-1865*.

²⁴ For the second book, he would write and rewrite its drafts until 1881. See MEGA II/11.

²⁵ MEGA II/4.2, published in 1992, comprises the “Manuskript I”, which was the basis for the publishing of Book III.

²⁶ MEGA IV/7 and MEGA IV/8.

²⁷ Some of the main contributions: Heinrich (1997), Volgraff und Jungnickel (1995), Krätke (2006). Before 1992, the Rubel’s edition (1968) also tackles the problem.

²⁸ MEGA II/3.4, p. 1453.

²⁹ MEGA II/3.4, p. 1463. The average rate of profit is obtained through a process that conceals its origins, found in the surplus value. Here, the interest rate conceals its origins in the demand and supply for capital converted into a commodity, reified.

³⁰ MEGA II/3.4, p. 1497.

The manuscript departs from a similar point regarding joint-stock companies ("Actiengesellschaften"). This form of capital, according to Marx, is "the suppression of the capitalist mode of production inside the capitalist mode of production and thus one self-suppressing contradiction that expresses itself *prima facie* as simply a point of departure to a *new* form of the mode of production".³¹ This new form would involve monopolies, state intervention, and a new financial aristocracy – in one expression, "private production without private property". Credit would come to embody social, not private risks. Such perspective is also present in the version of Book III published by Engels, who transcribed most of the related paragraphs found in the *Manuskript*. Hence, for the purposes of this paper, instead of analyzing the commonalities between the two texts, we may point out how far Marx had gone until 1866, and what he could expect from his studies and notes from *The Economist* when he wrote the *Exzerptheft*e about the 1866 crisis.

This gives great importance to the fourth and fifth sections³² of the fifth chapter of the manuscript of 1865. Here, Marx describes *The Economist* as able to grasp the surface of the problem – the capital fetish – but incapable of explaining its roots, that is to say, how interest-bearing capital is the instrument connecting past, objectified labor and living labor, while remaining capable of extracting surplus work.³³ Therefore, as was the case in previous manuscripts, the main purpose of the analysis of credit in the 1863-65 draft was to delve into specific aspects of capitalist production. Marx still takes notes in order to clarify and circumscribe the analysis and the *Manuskript 1863-1865* sometimes presents a different order of exposition from that found in Book III.³⁴ It begins with a description of interest-bearing capital and its relations to productive capital, that is to say, the relations between interest and profit, a theme very well developed in previous works and manuscripts. This allowed Marx to discuss the role of credit in capitalist production and, more importantly, the subject of crises from the perspective of the whole system. Following the order of exposition, he should also have dealt with the themes that would later become the fifth part of Book III, i.e., the relations among bank capital, money capital and real capital. The manuscript, however, ends at this point, hence warranting a closer examination.

³¹ MEGA II/4.2, pp. 502-503. This passage would become the chapter 27 of the Book III. See MEGA II/15, page 429.

³² The fifth chapter has the following division, sometimes named by the editors: 1) The interest-bearing capital; 2) Division of profit. Interest rate. The natural rate of interest; 3) Interest and enterprise gains; 4) Reification of surplus value and capital relations generally in the form of interest-bearing capital; 5) Credit. Fictitious capital; 6) Pre-bourgeois.

³³ See MEGA II/4.2, p. 466, where Marx quotes *The Economist* of 19 July, 1851: "all the wealth in the world from which income is derived, has long ago become the interest on capital".

³⁴ The fifth section of Book III (fifth chapter of the draft) provides one of the best examples of Engels' procedure to establish the definitive edition. See MEGA II/14, p. 230ff. He decomposed the text in order to reconstruct it, always following the structure of the *Manuskript I* (1863-1865), but collecting and relocating its many quotations. However, things did not go as planned, as he said in the preface to Book III: "I saw that this way would not work. I would have to study the very copious literature of this field in order to bring to an end something that would not be Marx's book."

II.2. Economic Dynamics *Avant la Lettre*

One of the main features of the argument is the relation between credit expansion and contraction (money acting as capital) and the productive system, which includes money as a medium of circulation. Marx considers the distinction – adopted, for instance, by Tooke – between money as medium of circulation of revenue and money as capital to be an error. In both cases, money works as a medium of circulation and payment. In times of prosperity, the velocity of circulation of money will increase due to a growth in revenue, and the capitalist will demand more credit. This is the period of “most elastic and easy credit”.³⁵ In other words, the same amount of money provides a larger return for the many capitals; the capitalist’s return materializes even before the actual sale of the commodity. This creates the illusion that credit is responsible for the expansion, and that a distinction really exists between money for the circulation of revenue and credit money. “The banks”, says Marx, “smell a rat while their customers return more bills as money”³⁶.

In times of adversity, on the other hand, money as a medium of circulation suffers a contraction due to falling prices, wages, and volume of transactions. This fall in credit leads to increasing demand for “monetary accommodation”. In Marx’s words: “There is no doubt that, with decreasing credit, which itself coincides with the decrease in the process of reproduction, the *circulation mass* (...) required for circulation decreases, while the one for credit increases.”³⁷ In bad times, it is not the demand for capital that rises, only the demand for capital as credit.³⁸ In a crisis, credit will work precisely in order to guarantee that money functions primarily as money-capital, guaranteeing that part of the capitalist class has access to a major portion of all social savings. In this scenario, the profit rate has nothing to do with the level of interest. However, what Marx names “pressure for pecuniary accommodation” does not concern capital itself, but only banking capital, no matter of what kind. State papers, securities, bank notes, and mortgages appear here only as money-capital and, especially, as titles over capital itself: “This is very important; that such pressure on banking capital and its relative scarcity in respect to the demand for it is confused with a diminution of real capital that in such cases overstocks the markets.”³⁹ This causes a decrease in the banking capital that is transformed again into money and the capital available in society is turned into money capital, until its transformation into world money, with the decrease in national reserves of gold. During a crisis, after all, banks fear a drain of gold above everything else. Periods of crisis increase the demand not for capital, but for money itself, which is evident from the fact that crises exhibit an overstock of capital in all its forms. While it may seem that the money supply has decreased, in fact it is simply functioning as a medium of payment.

If crises were a possibility within the circulation of commodities, here they assume their most complete character, forcing capital and financial instruments to return to their existence as money. Crises, therefore, bring about a fissure in the entire complex of categories in the system. This rupture is

³⁵ MEGA II/4.2, p. 509.

³⁶ MEGA II/4.2, p. 510.

³⁷ Idem.

³⁸ Some pages before, Marx stated: “If we consider the cycles in which the modern industry moves – state of quiescence, growing animation, prosperity, overproduction, crisis, stagnation, quiescence etc. – (...) we find that, generally, low levels of interest correspond to periods of prosperity or of extra profits, rise in the interest is the border between prosperity and its turnover, but maximum of interest until the extreme usury corresponds to crisis.” *Ib.*, p. 433.

³⁹ *Ib.*, p. 517.

possible because the mass of capital, as either commodity or money, is different from the stock of fictitious capital. Marx takes this opportunity to explain the origins of this latter form of capital, be it public or private, in which “all connections with the real process of valorization are lost until the last trace, and the representation of capital as an automat that expands its own value is consolidated.”⁴⁰ In its origins, fictitious capital are “accumulated claims upon production”, and thus they are capital on the side of real capital. The question is whether this capital relates to a real accumulation process, or else to a plethora of overproduced capital.

Marx considers it evident that prosperity induces an increase in moneyed (loanable) capital. Contrary to the usual view, he says that loanable moneyed capital increases after a crisis, since there is more money seeking for investment opportunities that are no longer available. Hence, the contraction of productive capital implies relative or even absolute increase of capital in its moneyed form⁴¹. This is the main reason why crises are always preceded by a wave of optimism in financial markets, since there is a superabundance of loanable capital during prosperous periods, which causes a reduction in interest rates. Marx concludes: “Altogether the movement of moneyed capital (as it expresses itself in interest) is the contrary of productive capital.”⁴² Moreover, the crucial moment lies in the movement of productive capital; in other words, a crisis begins with a constraint in production and a fall in the price level. This causes an increase in the mass of values of use in many nations at the same time, resulting in generalized balance of payments problems.

Marx wanted to stress, firstly, the meaning of a crisis and its point of departure, and secondly, how it affected the money supply, credit and the balance sheets of banks. According to him, “after each crisis, the highest level of loanable capital of the previous industrial cycle becomes the basis or the lowest level for the next”.⁴³ It is important to notice that, from this point onwards, the focus of the manuscript was mainly on two questions: money supply and quantity of circulation, and the volume of loanable capital. This implied a study of international bullion movements and of bank ledgers – phenomena that lay on the border between productive capital and loanable moneyed capital.⁴⁴ One can thus see that Marx built his own approach towards capital and credit markets in 1865, when he wrote the fifth chapter of *Manuskript 1863-1865*, in line with how Engels would eventually publish it nearly thirty years later. For Marx, nevertheless, 1865 would mark a new departure, as he announced to Engels in a letter from August 19th: “The critique of this sauce [the confusion] I can only give in a later writing.”⁴⁵ His research on specific aspects of the credit system and their relation to crises began simultaneously with the *third draft*.

As is well known, Marx’s method of composition was also a research method: his manuscripts contained both analytical parts and syntheses, sometimes dealing with his own writings. When he was writing *Das Kapital*, he began to handle a new set of problems and authors, and the four drafts demonstrate the difficulties encountered in the process. The fifth chapter of *Manuskript 1863-1865*, in

⁴⁰ *Ib.*, p. 522.

⁴¹ *Ib.*, p. 541.

⁴² *Ib.*, p. 542.

⁴³ *Ib.*, p. 553.

⁴⁴ Unfortunately, this entire approach was not considered by Grossmann (1942) when the time came to discuss the “problem of dynamics”, or even in his 1929 book.

⁴⁵ MEGA III/13, p. 539ff.

this sense, can be seen as a new level of research – not a rupture with the past, but a deeper elaboration of *Das Kapital*. Indeed, the credit market had changed so drastically in recent years that the “private production without private property system” now demanded more investigation, which Marx was only able to undertake properly in 1865. When Engels edited Book III, he discarded part of this research, but as many letters demonstrate, he was aware of the problem – his dilemma lay in the intention to publish Book III in “Marx’s own words”.

Nevertheless, it is clear that, with the *third draft*, Marx had established an agenda for further research: at that point, his theory met its object at a new level, different from the *Grundrisse* and the *Manuskript 1861-1863*. The editors of volume II/14 of MEGA2 provide two good examples of how things would come to change in the upcoming years.⁴⁶ First, there is the account by John Swinton of his interview with Marx⁴⁷, where the latter announced a trilogy of “Land”, “Capital”, and “Credit” – the United States would be the exemplary case of “credit”, as England was of “capital”.⁴⁸ This perspective was also present in the French edition of 1872, where Marx introduced some observations on public debt and credit that would later appear in the German edition of 1883.⁴⁹

The achievement of a logical structure that managed to connect *commodity to class*, as tentative as it was from Marx’s “artistic” perspective, provided him with a new framework. How he would have used it in his later years is the object of some controversy. Regardless, that which Engels could not accomplish in 1890, Marx had already begun, on a new theoretical level, in 1865.⁵⁰ When the crisis of 1866 hit, Marx was thus more prepared to study it than he had been in 1857.

II.3. The Notebooks After Book I: a new research stage

The difference between the notebooks compiled by Marx after 1868, on one hand, and the *Londoner Hefte* and other notebooks from the 1850s, on the other, are the level change between 1857 and 1867 – something of a new agenda opened up due to ten years of analytical effort. In 1868, Marx had already drafted the most important elements of his theory, from commodity to rent; even the method of presentation seemed adequately developed. Hence, when Marx took his many notes from 1868 and 1869, he seemed to know what he was looking for. Despite the new analytical efforts that would be later required, the notebooks seemed to fulfill a specific and straightforward role within Marxian investigations in this period.

The last part of the fifth section of the *Manuskript 1863-1865* – the so-called “the confusion” – comprises a series of notes where Marx reiterated his perspectives on the money market, credit and

⁴⁶ MEGA II/14, p. 446.

⁴⁷ MEGA I/25, p. 442. Although confuse and probably incorrect, this account is symptomatic of our point: the intended use of the *third draft* and subsequent notebooks.

⁴⁸ Shanin (1983) considers Russia the example of a “land” book, or at least of rent analysis. Swinton’s account may be wrong regarding the number of books, but it shows precisely the importance that credit would assume in a hypothetical edition by Marx of the material in Book III.

⁴⁹ See MEGA II/7, p. 671 and MEGA II/8, p. 705. Even the 1867 edition of Book I contains the well-known approach on the concentration of capitals (MEGA II/5, p. 503).

⁵⁰ Only a hundred years later could one glimpse how Marx actually worked after the *Manuskript 1863-1865*. The complete picture still awaits on the conclusion of the fourth section of MEGA2.

crises.⁵¹ The selection of notes follows a few themes: 1) circulation of bills and bank notes; 2) drain of bullion; 3) exchange rates; 4) quantity of money; and 5) international trade. Two reports occupy most of the space: the 1857 *Report from the select committee on bank acts* [...], and the 1848 *Report from the Secret Committee of the House of Lords appointed to inquire into the causes of distress*. Marx followed their discussion on the above items, while adding brief observations of his own. In his discussion of the crises of 1847 and 1857, Marx transcribed notes from his *Londoner Hefte*, in particular the ones taken from the 1847 editions of *The Economist*. The topics covered were: 1) influx and efflux of bullion;⁵² 2) the debate between Tooke and Loyd on the rate of interest during the crisis of 1847;⁵³ 3) the relation between internal prices and exchange rates, and also between foreign trade and bullion;⁵⁴ 4) crises, bank bills, and drain of bullion;⁵⁵ 5) the balance of trade between England and the world.⁵⁶ From the *Londoner Hefte*, Marx also quoted authors like P. J. Stirling (*The philosophy of trade*⁵⁷) and J. G. Kinnear (*The crisis and the currency*⁵⁸).

This section of the third draft remained unfinished, leaving Engels to deal with “the confusion”. In 1866 and 1867, Marx worked on the final version of the first edition of Book I, and then considered resuming his work on the other volumes. Precisely during this period, there occurred the “merely premature, specific financial crisis” of 1866.⁵⁹ Given the contents of his notebooks from 1868 and 1869, one might conclude that this crisis caught Marx’s attention in the same way as those of 1847 and 1857 – described in many notes and drafts from previous years – had done. Notebook B101-B109, for example, contains excerpts from articles and data published in the 1866 editions of *The Economist*. These notes, moreover, seem purposeful. Considering the contents of the notebooks, it seems possible to argue that the research agenda established in recent years – the categories analyzed in previous drafts and notebooks – would be the subject of some updating.

In the index for Notebook B101-B109⁶⁰, Marx selected a few pages from his own notebook concerning the crisis of 1866. The first one – a table published on May 19th, 1866, and reproduced as Figure 1 below – compares the crises of 1847, 1857, and 1866, thus seeming to indicate a connection between Marx’s analysis of previous crises and the current one.

⁵¹ MEGA II/4.2, p.561ff.

⁵² MEGA IV/7, p. 444; MEGA II/4.2, p. 623.

⁵³ MEGA IV/7, p. 475; MEGA II/4.2, p. 625.

⁵⁴ MEGA IV/7, p. 452; MEGA II/4.2, p. 638.

⁵⁵ MEGA IV/7, p. 455; MEGA II/4.2, p. 639. According to *The Economist*, the bullion in the Bank of England had decreased around 33% in 1847, whereas the rate of discount had been raised from 3,5 to 4 – not enough to stop the drain of bullion.

⁵⁶ MEGA IV/7, p. 463; MEGA II/4.2, p. 640. On page 656, Marx also quotes the article “The Bank of England and the rate of discount”, from 1853.

⁵⁷ MEGA IV/7, p. 562; MEGA II/4.2, p. 643.

⁵⁸ MEGA IV/7, p. 582; MEGA II/4.2, p. 644.

⁵⁹ Letter to Engels of May 17th, 1866. In: MEW, v. 31, p. 219 (“bloß verfrühte finanzielle Sonderkrise”).

⁶⁰ B101-B109, pp. 183-184.

FIGURE 1

Account showing the amount of the circulation of notes; amount of deposits, securities, bullion, and of reserve of notes held by the Bank; also, the minimum Bank rate of discount, at the undermentioned periods.								
Week ending	Notes in Circulat on.	Public Deposits.	Other Deposits.	Public Securities.	Other Securities.	Bullion.	Reserve of Notes.	Minimum Rate of Discount.
	£	£	£	£	£	£	£	Per Cent.
1847.								
Oct. 2.....	19,577,278	9,329,057	7,961,767	11,661,340	21,259,929	8,565,307	3,409,300	5½
9.....	19,503,372	9,414,713	7,713,896	11,426,340	21,437,443	8,408,750	3,321,700	...
16.....	20,263,001	5,496,833	8,674,584	11,088,877	18,963,326	8,430,700	2,630,115	...
23.....	21,265,188	4,763,394	8,580,509	10,899,707	19,467,128	8,312,691	1,547,270	8
30.....	21,764,085	4,696,032	8,911,442	10,613,607	20,409,897	8,438,874	1,176,740	...
Nov. 6.....	21,318,118	4,991,313	8,804,395	10,598,607	19,919,915	8,729,551	2,030,085	...
13.....	20,931,680	5,991,765	8,312,171	10,583,607	19,560,468	9,258,520	2,797,710	...
20.....	20,179,074	7,219,892	7,866,482	10,633,607	18,791,117	10,016,957	4,228,095	7
27.....	19,860,654	7,729,572	8,238,554	10,946,594	18,531,810	10,532,943	4,986,590	...
Dec. 4.....	19,668,782	7,799,527	8,441,289	10,946,594	18,070,409	11,032,599	5,583,020	6
11.....	19,182,179	8,229,759	8,437,376	10,946,594	17,630,931	11,426,176	6,448,780	...
18.....	18,615,039	8,763,497	8,604,976	10,998,214	17,158,338	11,991,376	7,551,140	...
25.....	18,630,093	9,235,978	8,243,203	11,965,267	16,979,060	12,236,526	7,786,180	5
1857.								
Oct. 3.....	20,324,714	8,243,217	10,002,282	10,593,607	21,835,842	10,662,692	4,606,040	5½
10.....	20,362,690	8,502,326	9,667,123	10,560,607	22,398,877	10,109,943	4,024,400	6
17.....	21,052,315	4,833,021	11,132,431	10,254,541	20,539,565	9,524,478	3,217,185	7
24.....	20,585,707	4,861,740	11,263,986	10,254,541	20,404,597	9,369,794	3,485,840	8
31.....	21,184,476	5,160,918	11,480,979	10,254,541	22,197,320	8,731,553	2,258,275	...
Nov. 7.....	21,079,942	4,871,944	11,910,670	10,110,104	22,628,251	8,497,780	2,155,315	9
14.....	21,036,430	5,314,659	12,935,344	9,444,828	26,113,453	7,170,508	957,710	10
21.....	22,235,954	5,483,881	13,959,165	6,407,134	30,299,270	6,434,096	1,148,185	...
28.....	22,156,143	5,788,998	14,951,516	5,897,447	31,350,717	7,263,672	1,918,840	...
Dec. 5.....	21,943,691	6,072,267	14,436,186	5,441,647	31,191,386	7,356,467	2,268,340	...
12.....	20,953,932	6,648,062	14,440,724	5,434,022	30,111,185	8,069,489	3,900,485	...
19.....	20,537,314	6,944,352	15,077,428	5,446,131	29,264,940	9,450,855	5,757,175	...
26.....	20,133,558	7,428,807	15,151,818	5,492,756	28,088,186	10,753,281	7,426,670	8
1866.								
April 25.....	22,588,244	4,417,147	13,294,641	10,694,754	18,507,854	13,855,776	5,844,205	6
May 2.....	23,309,819	4,922,990	13,587,965	10,694,254	20,380,395	13,509,140	4,839,250	7
9.....	22,806,660	5,781,827	13,515,537	10,894,254	20,844,217	13,156,140	4,950,325	9
16.....	26,650,817	5,936,219	18,620,672	10,837,056	30,943,259	12,322,803	730,830	10

Source: *The Economist*, 19 May 1866, page 586.

If the crisis was premature, Marx was at least quite aware of its effects. From pages 61 and 62, Marx selected some notes on the article “The substantial grounds for increased confidence” (*Economist* 1187, May 26th). He highlighted that “our interest rate is 10% against 4% of Paris” – a reason, according to *The Economist*, for not increasing the rate on the short term, since the crisis did not affect British “good business”. From the same edition, Marx also excerpted “The practical effect of the Act of 1844”, which highlighted how a panic would be necessarily aggravated by the working of the Bank Act, and how its suspension could cause foreign discredit.

On pages 73 and 74, Marx excerpted an article from June 26th, “The crisis of 1866, what it is and what it is not” (1191, p. 730), which distinguished among three forms of credit panic: “capital panic”, “bullion panic”, and a moral crisis related to bad banking. *The Economist* considered the panic of 1866 to be an instance of the third form, a point later reinforced on July 14th (B101-B109, p. 82). Of greater interest are the notes found on page 98, from September 8th, which coincide with articles written by Marx on note circulation during the 1850s. Marx highlights the quote below:

The country circulation did not instantaneously fall, but (...) it very rapidly did so. It fell at the worst period 909,000*l*, while the Bank of England 5*l* and 10*l* note circulation increased, at the worse time, 1,225,000*l*. The main strain of the demand on the Bank was for a reserve – the deposits of other banks – for notes of high denomination suitable for the purpose, and for it only. (B101-B109, p. 82).

In this notebook, Marx was especially interested in the variations of the rate of interest, which the Bank of England kept at 10 per cent during the crisis. Accordingly, he transcribed a series of analyses about the issue published in *The Economist* between June and August. The newspaper showed surprise at the persistence of the ten percent rate, even though bullion reserves and species circulation were increasingly normal.⁶¹ The crisis of 1866 represented a new challenge for economists and journalists, since it became necessary to find an economic explanation for behavior that seemed theoretically incomprehensible. Some of the notes highlighted by Marx in his index to Notebook B101-B109 hence dealt with companies involved in the crisis – especially Overend & Gurney, but also *Crédit Mobilier* and the Bank of London – while others described the failures of 1866.

If, in 1866, Marx saw a premature financial crisis, after carefully studying the newspapers and the data he may have changed his opinion, or at least come to see the problem as slightly more complex. As he pointed out ten years in advance, a new form of crisis had emerged, one that did not arise simply from overproduction, but instead from a plethora of capitals, or from the fetish of producing money out of money. It is thus not surprising that one of the notes on Notebook B109 – the article “What to buy”, on personal investment, from December 15th, 1866 – received, in the index, the mark “g – g”.

III. STOCK EXCHANGES AND THE CRISIS OF 1866

There are many excellent analyses of the crisis of 1866. Takenaga (2014, pp. 36-45) presents an updated summary and reviews the relevant literature. The purpose of this section is simply to highlight one of its features, as described in the literature: the role of stock exchanges and related institutions among the causes of the crisis.

Kindleberger and Aliber (2005, p. 299) thus schematically describe the 1866 crisis in their Appendix (“A Stylized Outline of Financial Crises, 1618-1998”):

COUNTRY: England/Italy;
RELATED TO: General limited liability;
MONETARY EXPANSION FROM: Shipping companies generally, Joint-stock discount houses;
SPECULATIVE PEAK: July 1865;
CRISIS (CRASH, PANIC): May 1866;
LENDER OF LAST RESORT: Suspension of Bank Act, Italy abandoned fixed parity.

⁶¹ *Exzerptheft* B101-B109, pp. 73, 75, 76, 78, 82-87, 88. On page 82, Marx transcribed an article from July 14th, which dealt again with the “moral aspect” of the crisis, but also with the “plethora of capitals”: “The answer is found by looking at the time in which this bad business begun. It goes back to the years 1862 and 1863. The rate of interest for a long period was very small, and there was a consequent difficulty in employing the loanable capital in the money market. This is one of the fundamental causes of bad business.”

In their description of the crises of 1847 and 1857 in England, the authors once more indicate that the lender of last resort was, in both cases, "suspension of Bank Act" (2005, p. 298).

Takenaga (2014, p. 41) describes how the "collapse of the stock market from the end of 1865 to the beginning of 1866 and the failure of the two large railway companies in which Overend and Gurney invested most of its funds [...] could not but reveal the difficulties in the management of Overend and Gurney". Relatedly, Cottrell (2004) explores the relationship between railways, the money market, stock exchanges and the crisis of 1866. For him,

[t]he financing methods of contractors varied substantially, but many involved discounting bills backed by railway securities received in payment for their work. However, the contractors' use, or rather misuse, of bills of exchange to sustain their activities became increasingly difficult from autumn 1865 as interest rates rose. Unable to raise further credit, many went bankrupt, with the greatest shock produced by the failure of Peto & Betts, major contractors.⁶² Their collapse triggered on 'Black Friday', 10 May 1866, the closure of Overend, Gurney, the biggest London discount house, causing the worst panic since 1825. [...] The 1866 crisis had lasting consequences for both railway finance and for, more generally, the London money market (Cottrell 2004, p. 259)

Furthermore, "[t]he 1866 crisis threw many railway companies into complete disarray, with some forced 'into Chancery'" (p. 259). The author also describes the institutional development of financial markets, with special attention to limited liability firms, dividing their history into two phases: initial adoption (1855-85) and wider take-up (1885-1914).

Regarding the relationship between railways and finance, Ville (2004, p. 306) explains how "[r]ailways played an initiating and facilitating role in many capital market developments. [...] The railway companies themselves were the largest private business organisations of the mid-Victorian period and pioneers of many advances in the corporate form".⁶³ Chandler (1990, p. 254) provides a framework for understanding the role played by railways in the process of emergence of modern firms: "the British railroad companies were by far the largest business enterprise in Britain during the nineteenth century. Their operations resulted in the creation in Britain of the first managerial hierarchies with lower, middle and top levels". These companies, according to Chandler (1990, p. 253) contributed to the evolution of capital markets, as "the new demand for railroad capital did lead to the development of new financial instruments – preferred stocks and debentures". Mitchel (1964) highlights the

⁶² Marx did follow footprints of a chain that might lead to the crisis: 1) MMR, 25 August 1866, p. 220-221 (B101-B109, p. 211-212): The London, Chatham, and Dover Railway Company announce "that they are unable to renew debentures which have recently matured to the amount of £ 400,000 or to pay interest due last month on any of their debentures" (p. 220); 2) MMR, 6 July 1867, p. 8 (B108, p. 52): "The London, Chattam, and Dover Railway Company. The account with the contractors" – a debt of more than six and a half million pounds from Messers Peto, Betts and Crampton to the railway company.; 3) *The Economist*, 13 October 1866, p. 1189-1191 (B101-B109, p.102): "The history of London, Chatham and Dover Railway, and the lessons to be derived from it" – the London, Chatham and Dover Railway was a 'contractor railway', constituted through borrowing money, not subscribing capital – "Those loans were often secured by Peto and Co's acceptances, and have been floating about Lombard Street these six years, growing each year larger and larger. A more wasteful mode of getting capital cannot be conceived".

⁶³ See Chandler (1977, pp. 79-206) and the railways as the first modern industrial enterprises.

contribution of railways to the development of capital markets in the UK: "probably the major influence of the coming of the railway was on the development of capital market and on the level of savings" (p. 333). Acheson et al. (2009, p. 1111) present data on the London Stock Exchange between 1825 and 1870 that indicates that railways were the most important security traded at the time: their sample of 681 companies (including banks and mining) contains 180 railway companies, the latter responsible for 329 out of 1,015 securities.

These studies help us identify the specific economic context experienced by Marx during 1868-69, when he returned to the British Museum. Big changes were under way in the leading global stock exchange, and his notebooks testify to his interest in apprehending such institutional changes while they were under way. They prepared the ground for a new institutional setting that would be described by Engels thirty years later – one where "the stock exchange becomes the most pre-eminent representative of capitalist production as such" (Supplement to Volume III, p. 1045). The notebooks written during that period may indicate how far Marx could grasp these changes.

IV. MARX'S NOTEBOOKS AND GUIDELINES FOR AN ANALYSIS OF THE 1866 CRISIS: A NEW ROLE FOR STOCK EXCHANGES

What picture of the 1866 crisis might Marx's excerpts suggest? The footprints left by Marx, interpreted and organized by Takenaga (2014), illustrate the development of his studies. Sections II and III suggest strongly that Marx knew clearly what he was looking for in his readings and excerpts. His starting point can be found in the index to Notebook B108 (pp. 84-86), where Marx organized data from the Bank of England and excerpted articles from the 1867 edition of *The Money Market Review*. This material came under five headings: 1) Bank of England and money market; 2) Stock and share markets Investments etc.; 3) Companies; 4) Trade; and 5) Railways (Takenaga, 2014, pp. 46-47). Railways alone occupy a full page. The weight of statistical data indicates the empirical nature of this material: out of 86 pages, 56 contained tables of some sort.

This structure suggests that Marx was looking for very specific topics. The importance of the monetary and financial dimensions is clear from the start – one should remember that railways were a product of credit and stock markets, as Marx had already pointed out in Book I (p. 436). His writings on the "role of credit system" in MEGA II.4.2 (pp. 501-505) may have been the starting point for his research. Here, it seems likely that more was at stake than simply grasping the 1866 crisis – Marx would have certainly been very curious to understand how the credit system allowed for the formation of railways. As Takenaga (2014, pp. 45-46) has shown, Marx transcribed data regarding the ups and downs of the Bank of England discount rate during the 22 years since the Bank Act of 1844 (Figure 2 below). This would later be resumed in B101-B109, as a systematic search for episodes where the discount rate reached 10% – the level defined by the Bank of England after 11 May 1866, as a reaction to the bankruptcy of Overend & Gurney. Throughout that whole period (1,193 weeks), as Marx's table shows, the rate was at 10% for only 20 weeks and 2 days. Of these, 13 weeks came after 1859.

FIGURE 2

period average of 6 1/2% taken on the following analysis:
 Analysis of the Bank Rates of Discount for 2 1/2 years.

Weeks	1851	1852	1853	1854	1855	1856	1857	1858	1859	1860	1861	1862	1863	1864	1865	1866
2	-	-	-	37	-	-	-	-	-	-	-	-	-	-	-	-
2 1/2	115	-	-	38	-	-	-	-	-	-	-	-	-	-	-	-
3	121	-	-	62	-	-	-	-	-	-	-	-	-	-	-	-
3 1/2	63	-	-	27	-	-	-	-	-	-	-	-	-	-	-	-
4	51	-	-	10	-	-	-	-	-	-	-	-	-	-	-	-
4 1/2	-	-	-	21	-	-	-	-	-	-	-	-	-	-	-	-
5	22	-	-	24	6	-	-	-	-	-	-	-	-	-	-	-
5 1/2	11	-	-	26	5	-	-	-	-	-	-	-	-	-	-	-
6	5	-	-	21	4	-	-	-	-	-	-	-	-	-	-	-
6 1/2	-	-	-	49	3	-	-	-	-	-	-	-	-	-	-	-
7	1	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-
8	4	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-
Total	382	-	-	385	-	-	-	-	-	-	-	-	-	-	-	-

In the 11 years of 382 weeks only 20 weeks only were below 4% per month, weekly years of 2 1/2% or below for the 2 1/2 years of each 2 1/2% the lowest 9 1/2% the highest 11 1/2%

Source: B102-B108, p. 14

Marx also excerpted an article published in *TMMR* on 12 January 1867, describing 876 companies with "joint-stock shares, chiefly with limited liability", classified according to their activities: 283 companies appear as "manufacturing and trading", 147 as "mining", 108 as "banking" and "financial", and 44 as "railways". The table, reproduced as Figure 3 below, gives us a good picture of the state of stock markets *circa* 1860-1866.

FIGURE 3

of the 876 companies...

Industry	Number of Companies	Capital Paid-up	Capital Offered	Dividends
Manufacturing and Trading	283	£ 44,770,000	£ 69,902,900	£ 10,144,090
Banking	58	42,250,000	47,350,000	£ 2,252,750
Finance and Insurance	50	65,350,000	47,350,000	4,331,250
Chemical	49	26,750,000	27,016,000	3,387,250
Mining	33	15,450,000	12,350,000	1,859,100
Railways and Transport	43	12,445,000	11,145,000	1,610,000
Wholesale	38	2,095,000	6,172,000	3,015,500
Wholesale	117	17,150,000	1,185,000	1,233,500
Railways	82	1,040,000	41,463,000	594,500
Other	17	2,095,000	2,265,900	37,699,650
Other	51	17,150,000	1,185,000	1,233,500
Total	876	£ 976,230,000	£ 265,156,900	£ 2,249,100

5th Quarter 1866
 1865
 1866

Source: B102-B108, p. 26 (*The Money Market Review*, 12 Jan 1867, p. 37)

In comparison, Michie (1999, p. 88) presents figures on different sectors of the London Stock Market: in 1863, when railways, domestic and foreign, were around 25% of the stock market (and British government securities around 57% - this suggests a stock exchange undergoing a deep structural change away from a phase dominated by governmental titles). Marx, in Book I, had already explained the

connection between credit system and concentration of capital (MEGA II.5, p. 505)⁶⁴, and in his manuscripts of Book III had discussed the "role of the credit system in capitalist production" - a clear formulation on how the credit system and joint-stock companies would affect production. Therefore, it is not surprising that Marx in 1868-69 devoted his attention to the nexus between railways and stock exchanges, as is clear from the abovementioned index.

Armed with these very broad pictures of two key dimensions under his investigations (the money market and stock exchange), Marx prepared Notebook B109, where excerpts from *The Economist* appear first. The index to these excerpts lists 17 headings, now including a specific topic on the "crisis of 1866" (Takenaga, 2014, pp. 47-48). Here, Marx highlights one important table, published by *The Economist* on 19 May 1866, and fully transcribed on Notebook B109 (pp. 57-58 – see Figure 1 above). The title of this article was "The rapidity of the panic in 1866 as compared with that of 1847 and 1857". The introduction to the table stated: "We give below a table showing the relative changes in the Bank's accounts in the last suspensions of the Act, and it will be at once evident how much more rapid the calamity has been on this occasion than on any previous one" (p. 586).⁶⁵

This table illustrates two signs of a crisis: a reduction in the reserve notes held by the Bank of England, and an increase in the "minimum rate of discount" – 8% in the crisis of 1847, 10% in the crises of 1857 and 1866. Together with his earlier notes on the Bank of England discount rate "in the last 22 years" (B102-108, pp. 12, 14), the table could provide a thread connecting three subsequent crises, and further integrate fluctuations in discount rates with the development of crises.

The next step in Marx's studies was to excerpt *The Money Market Review* – a more technical and specialized weekly newspaper, according to Takenaga (2014, p. 45).⁶⁶ His index is now more elaborate, and the synthesis of his readings is found under topic number two: "crisis of 1866" (Takenaga 2014, p. 50). Seven headings compose this topic: A) Bank of England, Bank Act of 1844; B) Theory of Panic; C) Securities (Investments) and Panic; D) Joint-stock banks and other companies; E) Railways; F) Plethora of Money; and G) Limited Liability Act of 1862 (B101-B109, pp. 285-287). As the subjects indicate, Marx was now dealing with a capitalism that had monetary and financial institutions at its core.

Under heading A, Marx listed excerpts dealing with the actions of the Bank of England and the consequent debates on the Bank Act of 1844, which touched on the growing complexity of the British financial system, and the new developments necessary to cope with it. The second heading ("Theory of Panic") contains broader analyses of the nature of crises in general, and the crisis of 1866 in particular. *TMMR* reviewed at least three books in articles excerpted by Marx: *The crisis of 1866*: a financial essay,

⁶⁴ "Abgesehn hiervon bildet sich mit der kapitalistischen Produktion eine ganz neue Macht, das Kreditwesen. Es wird nicht nur selbst zu einer neuen gewaltigen Waffe im Konkurrenzkampfe. Durch unsichtbare Fäden zieht es die über die Oberfläche der Gesellschaft in größeren oder kleineren Massen zersplitterten Geldmittel in die Hände individueller Kapitalisten. Es ist die spezifische Maschine zur Konzentration der Kapitale" (MEGA II.5, p. 505).

⁶⁵ As put forward in section II, Marx followed the size of the Bank of England reserves. In the published edition of Book III, there is reference to the "entire reserve of the Bank of England" being only £580,751 on November 12, 1857 (1894, p. 631). The table transcribed by Marx shows that the amount of "reserve notes held by the Bank" on November 14, 1857 was £957,710.

⁶⁶ There were also political differences between *The Money Market Review* and *The Economist*, which can be identified in critical (sometimes even sarcastic) comments on subjects such as the 1844 Bank Act – *TMMR* is deeply critical, as seen on articles from 12 Jan. 1867, 9 Jun. 1866, and 26 May 1866 – and the responsibility of the directors of Overend and Gurney – "conscious fraud" or "unconscious fraud" (30 Mar. 1867).

published by W. Fowler in 1866 (19 Dec. 1866, B101-B109, pp. 238-240); *Financial Lessons of 1866*, published by an anonymous "city manager" in 1867 (13 & 20 Jul. 1867, B101-B109, pp. 266-7); and *Monetary panics and their remedy, with special reference to the panic of 11th May, 1866*, written by J. P. Gassiot (9 Nov. 1867, B101-B109, p. 278).

Fowler (1866) recognized a pattern in the recurring crises of the past decades: some isolated event spread distrust among the public, who looked for liquidity and thus caused unsound financial institutions to fail; these failures further undermined public confidence, bringing about a full-fledged panic. To Fowler, however, the distinctive features of the crisis of 1866 were its magnitude and suddenness. The event that triggered the panic was the failure of one of the longest-standing, most prolific discount houses of London, and the measures required to deal with it were accordingly severe, all of which contributed to making the crisis a remarkable event. In Fowler's words: "A Crisis marked by the largest failure ever known, and by a continuance of a ten per cent. rate for fourteen weeks, will always be memorable" (1866, p. 1). Fowler was an adherent of the so-called Currency School, and as such, he firmly defended the appropriateness of the Bank Act of 1844 as an instrument of financial policy. In order to further his position, he drew extensively on the evidences presented before Parliament by both Lord Overstone and the Governor of the Bank of England on the aftermath of the crisis of 1857.

Financial Lessons of 1866 presented a different point of view, being divided by *TMMR* in two parts. The first part (reviewed on 13 July 1867) was a long digression on limited liability companies, using letters written to *The Economist* before the panic in order to show how the Act of Companies of 1862 fostered the creation of "bubble companies" (p. 25). The author focused his analysis on "bad business", "which produced, or at least greatly aggravated last year's crisis" (1867, p. 6). To him, attention should be concentrated on businesses that raised funds relying on the 1862 Act (p. 7) – a legislation that allowed the creation of fraudulent schemes such as the "London, Chatham, and Dover Railway" (p. 17). *TMMR* showed how the book made "suggestions for the amendment of the Companies Act 1862" that "point in the same direction" of a previous article in the newspaper (p. 31).

Finally, the review of Gassiot's book (9 Nov. 1867, p. 477) was used to support the newspaper's position in favor of the "total repeal of obnoxious clauses limiting the bank-note issues". Marx's selection of articles under the entry "Theory of Panic", therefore, highlights the connection between the panic of 1866 and one particular financial innovation – limited liability companies.⁶⁷

Marx also excerpted an article from 19 October 1867 (B101-B109, p. 276) containing an analysis by the Liverpool Chamber of Commerce on "Commercial crises, trading upon borrowed capital". The piece evaluated common causes of the current crises in France and England (mostly related to the "American war"), and specific causes "peculiar to each nation". The causes specific to England were "premature investments from 1862 to 1866 in railway enterprises", "excessive speculation and overtrading", "reckless investment of capital in joint-stock companies of every description", "the collapse of several banks", and "two deficient harvests" (p. 404). This entry indicates that Marx was collecting evidence of the financial nature of the crisis, showing how an institutional innovation was crucial in preparing the conditions for both the rise and subsequent fall in investments.

⁶⁷ The "city manager" kept contact with the newspaper – see *TMMR*, 10 Aug. 1867, p. 141-142, where one can find recommendations for joint stock companies and for the future of the Bank Act of 1844.

The third heading (“Securities (Investments) and Panic”) may constitute a systematic inquiry into the stock exchange of Marx’s time. What did the *The Money Market Review* show his readership? Figure 4 reproduces a standard section of the newspaper: “The London official stock and share list”.

FIGURE 4

Source: *The Money Market Review*, 5 May 1866, pp. 618-619

TMMR carefully analyzed fluctuations in the value of securities in general, with a special focus on railway shares (both domestic and foreign, including USA and colonial possessions), in a section entitled "Stock Market of the Week", which was under Marx’s constant scrutiny (B101-B109, pp. 190, 193, 218-219; B102-B108, p. 32).⁶⁸ This may serve as a guide to understand the state of the stock exchange at the time. For instance, the issue from 19 May 1866 mentioned "government stocks", "guaranteed Indian Railways", "foreign stocks" (Mexico, Italy, Spain, Brazil, and Turkey), "shares in the financial companies", "railway stock" and "bank shares". The section concluded evaluating that "most securities are at the present absolutely below their value", so that "purchasers may at the present moment secure handsome returns on the money laid out" (p. 664).

An article from 26 May 1866, excerpted under the entry "losses" in the index (B101-B109, p. 285), asserted that "the fall in Railway Stocks have been severe", but "the greatest interest of the week has naturally centered in the market for bank shares, where fluctuations have been terrible". The 29 September 1866 issue (B101-B109, p. 217) argued that, different from the "distress that followed the railway mania of 1845 and 1846 [...] in this share crisis of 1866 the money called upon under liquidation

⁶⁸ The reliability of data from *The Money Market Review* is acknowledged by Chabot and Kurz (2009, p. 7).

is utterly lost to the contributories". This article was followed by a piece entitled "The stock market" – excerpted by Marx under the title "Depreciation of shares and railway stocks" – that thus summarized the week: "[t]he most marked and most unfavourable feature of this week is the discredit into which railway stocks had fallen. [...] [t]he present state of things must be the prelude to a thorough reform of our railway system".

Heading D ("Joint-stock banks and other companies") is the longest in the index. There are articles covering specific banks (with special attention to Overend & Gurney, but also including Leeds Bank, Royal Bank of Liverpool, European Bank, etc.), companies such as the Russian Iron Works and the Estate Investment Company, and the "increase of employment of capital". There are also articles dealing with broader subjects, such as one published on 2 February 1867 that tried to defend the institution of "joint stock financing" against its abuses (B101-B109, p. 253). One can also find descriptions of swindles involving joint stock financing under investigation by the Justice⁶⁹ (B101-B109, pp. 199-200), and of difficulties in the management of new limited liability companies⁷⁰ (B101-B109, p. 275).

The fifth heading covered railways, and since this topic seemed deeply intertwined with the credit system in Marx's mind, one may interpret his extensive readings on railways as an attempt to understand how these could be financed beyond the resources of "individual capitalists" – thus configuring an extension of Marx's abovementioned studies on Notebook B108. The topics listed in the index outline a broad study on railways, dealing with several financial features that surrounded those high-tech investments. On Notebook B108, Marx excerpted articles discussing the "stock market of the week" (p. 32), "railway dividends" (p. 74), "railway collapse" (p. 32-34), "railways accounts" (p. 75), and "railway reform" (p. 76). On Notebook B109, moreover, one can find a systematic investigation discussing the following topics:

- 1) **Railways and stock exchanges:** Marx excerpted an article stating that "the ordinary stock of each of the large railway companies [...] have fallen as much as 20 per cent"⁷¹ (B101-B109, p. 265);
- 2) **Railway finance:** The first entry under heading E is an article on "Lord Redesale's project for amendment of railway finance" (B101-B109, p. 191), published one week after the crash. There are also excerpts from "Railway accounts"⁷² and from an article on a book by R. H. Petterson on "Railway Finance", with transcripts of data on the distribution of capital raised through "debenture loans", "debenture stocks", "temporary loans", "preference capital" and "ordinary capital";
- 3) **Railway dividends:** Contains excerpts from an article on the definition of dividends⁷³ (B102-B108, p. 74), which argued that the amount of dividends to be paid depended crucially on whether one defined capital accretions as either capital or revenue – an obscure technical issue

⁶⁹ "Joint stock promoting and financing - the story of Mr. Bernard Solomon Bernard" (*TMMR*, 21 Jul. 1866).

⁷⁰ A conflict between the Hodges' Distillery Company and its shareholders (*TMMR*, 28 Sep. 1867).

⁷¹ "The year's fall in railway property" (*TMMR*, 15 June 1867, p. 694).

⁷² *TMMR*, 16 Nov. 1867, pp. 504-505; 8 Feb. 1867, p. 149; and 15 Feb. 1868, pp. 185-186.

⁷³ "Railway finance and its mysteries" (*TMMR*, 16 Nov. 1866, pp. 504-505).

that partly explained the "mysteries" of railway finance at that stage. Another excerpted article discussed the subjects of bookkeeping, audits, shareholders, capital accounts, profits, stockbrokers, and railways in their relation to the definition of dividends⁷⁴ (B101-B108, p. 75);

- 4) **Railway debentures:** This topic contains excerpts from an article from 25 September 1866, entitled "Railway debentures falling due to a money panic - The London, Chatham, and Dover Company" (B101-B109, p. 210). Besides announcing that the company was unable to renew its debentures, the article stated that "debentures of railway companies are always falling due [...] when the times are good, the renewal is easy, when bad, very difficult or impossible". Other subjects covered included an analysis of the capital composition of 26 railway companies⁷⁵ (B101-B109, p. 241), showing that debentures were 20 per cent or more of the "entire capital raised" for 18 companies, and the promulgation of the "Railway Companies Securities Act, 1866", regulating railway debentures⁷⁶ (B101-B109, p. 244);
- 5) **Railway reform:** Excerpts from an article published on 26 January 1867, entitled "Can all railways of Great Britain be consolidated under one management?" (B102-B109, p. 251-252).

According to Cottrell (2004, p. 259), "the crisis of 1866 threw many railway companies' finances into complete disarray. [...] The prime issue concerned the solidity of railway debentures". It is interesting to read in the reports on the meeting of the Bank of England⁷⁷ how the directors debated railway debentures: the question was, "are there railway debentures among the investments of Bank of England?"; the answer, only "those of first-class railway companies". Given these concerns, one might wonder whether Marx was dealing with new, experimental financial instruments – in other words, with financial innovations. Railway debentures (which would become the subject of parliamentary regulation after the crisis) and limited liability both seem to fit that description.

Under heading F ("Plethora of Money"), there are two articles. The first one, entitled "How is money to be employed" (B101-B109, p. 230), presented a survey of investment opportunities before concluding:

Although, therefore, there is not much room, in our view, for the investment of money in bank and financial shares, in British railways stocks, or telegraphy, there is ample scope at present in North American securities; and there is a fair prospect that India and our other colonies will be able to offer us good security for much of our surplus earnings.⁷⁸

⁷⁴ "Railway dividends and the doubts attaching to them" (*TMMR*, 23 Nov. 1866, pp. 532-533).

⁷⁵ "Railway debentures" (*TMMR*, 15 Dec. 1866, p. 241).

⁷⁶ "The new railway debenture law now coming into operation" (*TMMR*, 29 Dec. 1866, p. 733-734).

⁷⁷ See *The Economist*, 22 Sep. 1866, p. 1112; *TMMR*, 22 Sep. 1866, p. 328; and Bagehot 1873, pp. 354, 357.

⁷⁸ *TMMR*, 27 Oct. 1866, pp. 464-465.

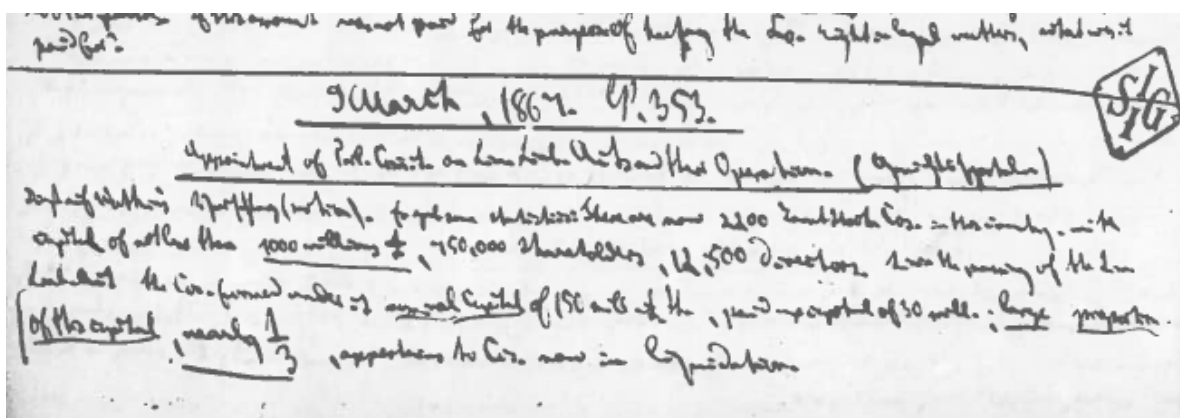
The second article, "Plethora of money", established a contrast between the availability of money, which "continues very plentiful", and the lack of "means of employment for accumulating capital"⁷⁹ (B101-B109, p. 255).

Finally, we come to the last heading, which discussed the "Limited Liability Act of 1862". On its first edition after the crash (19 May 1866), *TMMR* published an article on "The panic and the evils of the secrecy in the accounts of the financial companies", associating the spread of limited liability companies with the crash. The article further argued that "there were many errors and omissions in the Companies' Act which demand immediate attention and action of the Parliament" (p. 665). Marx excerpted these and other pieces that surfaced during this period of intense parliamentary action on the subject of financial regulation. Regarding the Limited Liability Act, there was "the appointment of a parliamentary committee on their operation" (B101-B109, p. 255). This same article offered a broad overview of the institution to be reformed:

Some of the statistics of joint-stock companies given by Mr. Watkins are exceedingly interesting. There are now, it appears, 2,200 joint stock companies in this country, with a capital of not less than one thousand millions, and with 750,000 shareholders or persons interested in these companies. Another class, which had grown up with them, namely, the director class, amounted to 12,500 in number. In the four years since the passing of the Limited Liability Act, Mr. Watkins said the companies formed under it had a capital of one hundred and fifty millions sterling and a paid up capital of thirty millions, and it is melancholy to reflect that a large proportion of this capital, nearly one third, appertains to companies now in liquidation.⁸⁰

The abovementioned statistics were duly transcribed by Marx, as shown in Figure 5 below.

FIGURE 5



Source: B101-B109, p. 255 (The Money Market Review, 9 March 1867, p. 295)

⁷⁹ *TMMR*, 2 Mar. 1867, p. 269.

⁸⁰ *TMMR*, 9 Mar. 1867, p. 295.

There is also discussion of other issues, such as the Bank Act of 1844⁸¹ and other measures designed to regulate financial markets.⁸²

Marx's excerpts capture a time full of initiatives aimed to reform, adapt, and correct problems related to the emergence of crises. The discussion of limited liability may be the most visible of these, as shown on heading G, but there were several others: railways, shares, debentures, the role of the Bank of England as "lender of last resort", protection of shareholders, transparency in capital accounts, etc. Marx might have been surveying a strong wave of institutional reform, brought about by the 1866 crisis, which would soon reshape capitalism – a reformist agenda that naturally involved strong calls for state intervention through direct legislative action, and which may have provided the conditions for the "rehabilitation of railway finance after the 1866 crisis" identified by Cottrell (2004, p. 267).⁸³

As Takenaga (2014) suggests, the notebooks may have their own developing logic. Following this suggestion, the index for Notebook B102-109 (pp. 285-287) may help interpreting the one for Notebook B105-B113, where Marx excerpts articles from 1868 and reviews two books. One clue that Marx is moving towards other aspects is the title of one of the headings, dealing with the post-crisis environment: "2- crises und nachwirkungen"⁸⁴ (B105-B113, p. 87). Railways once again show up as an independent topic ("4- Railways"). The title of one of the entries ("Influence of crisis and depression on railway revenues") provides a possible connection with the themes discussed in the other notebooks. On B108 and B109, the emphasis was on how problems with railway finance had been one of the causes behind the crash and depression. On B113, on the other hand, Marx reverts his perspective. An article published by *TMMR* on 10 October 1868 described how the "railway traffic... should be affected by commercial depression", with special attention to "the various sources from which railway traffic is derived". These were three: passengers and mails, merchandise and livestock, and minerals. For the newspaper, "[p]assenger traffic is the branch of receipts that is least prejudiced during commercial stagnation. The carriage of merchandise is diminished but generally to a less serious extent than the traffic of minerals" (p. 336). The effects of the crisis on railway companies, therefore, depended on the sources on which they based their business, which might affect their revenues and the dividends they paid – according to the article, the "elasticity" of passenger lines was "an element of hope". *TMMR* presented a table with related data, which Marx transcribed.

⁸¹ "What to do with the Act of 1844" (B101-B109, p. 189), and "The proposed expansive clause in the Bank Act to obviate periodical suspensions" (*TMMR*, 12 Jan. 1867, pp. 35-37).

⁸² "Bill for regulating sale in shares" (B101-B109, p. 183); "Joint stock company law" (*TMMR*, 10 Nov. 1866); "The Act amending the law relating to railways" (B113, p. 41); "Railway Companies Securities Act. 1866" (B101-B109, p. 244); "The new railway debenture law now coming into operation" (*TMMR*, 29 Dec. 1866, p. 733-734); "Mr. Leeman's bill for regulating the sale of bank shares" (*The Economist*, 02/03/1867, pp. 231-232); an Act amending the law relating to the railways (*TMMR*, 15 Aug. 1868, p. 168); discussions on railway reform, uniform accounts, and government audit (*TMMR*, 11 Jan. 1868, pp. 31-32).

⁸³ Mitchell (1964, pp. 335-336) presents data showing that between 1831 and 1919 there were five railway investment peaks (capital formation in UK railways greater than 20% of UK's gross capital formation): 1845-1849, 1863-1866, 1874-1875, 1883-1884, and 1897-1906. The debates on the problems of railway investments, and the institutional changes that followed them (all excerpted by Marx) may have been preconditions for new investment waves. In his notebooks, Marx could have been investigating how post-1866 changes might have contributed for subsequent peaks, as indicated in an article from *TMMR* (29 Dec. 1866) arguing that changes in the Limited Liability Act "at least affords this protection to investors in railway debentures", meaning that they "[r]emoved the one great impediment to railway progress" (p. 734).

⁸⁴ "Crises and consequences"

On Notebook B113, Marx also reviewed Goschen's *Foreign Exchanges* (1862). The excerpts on B109 might his interest in the book, since Goschen focused on foreign bills, foreign loans, and international indebtedness. The book also discusses international movements of capital, tracing connections between different financial institutions. "Foreign capitalists", for instance, followed the fluctuations in the Bank of England's rate of discount as "an indication of a demand for bills on England, as a means of placing capital here" (Goschen 1862, pp. 134-135). Some articles excerpted by Marx on B109 illustrate how he conceived these connections. In "The Stock Exchange of the week"⁸⁵ (B101-B109, p. 193), *TMMR* reports: "[a] steady drain of bullion to the Continent continues, partly to pay for the stock with which Continental holders have lately loaded our market, and partly because the delicate machinery of foreign exchanges is out of gear at this time of mercantile distrust" (p. 692). Other articles excerpted described "colonial loans" (p. 251) and investments in North America and colonies (p. 230). Marx's attention to "mechanisms of international transmission of crises" is clear from a long excerpt from an article published on 7 July 1866, entitled "Why the panic in England has not caused a panic in America" (B101-B109, pp. 78-80). The reasons put forward were twofold: first, "the connection between the United States and England was violently broken by the civil war"; second, "the large payments which America has made to us in bullion would undoubtedly have deeply affected her if bullion had been the basis of her credit system. But it is not so; greenbacks are its basis now" (*The Economist*, 7 July 1866, p. 791). Goschen's book may have helped Marx investigate more deeply that "delicate machinery of foreign exchanges", in all its complex international connections.

Finally, Marx now also demonstrated great interest on the subject of "commercial morality", which appears as an independent topic. His concern with the containment of swindles and the protection of shareholders was already clear on Notebook B109, where there are a few excerpts on "commercial morality" (B101-B109, p. 259). The increasing relevance of this subject during the following years probably sparked Marx's interest on accounting techniques, as testified by his review of Feller & Odermann's *Kaufmännische Rechnung* (1866), a work that offered him some clues regarding the art of "cooking books" – a subject extensively discussed in the newspapers during 1867-68.

CONCLUSION

What were these excerpt notebooks? What do they show, as another provisional result of Marx investigations?

The notebooks are a labyrinth, since they show how a collection of data relating to the financial world of his time might open new avenues for research, one after another. For a contemporary researcher, the chances of getting lost in this wealth of information, topics, and questions are even larger. However, they also provide us with an opportunity to follow Marx's method of investigation unfolding, within a logic that Takenaga (2014) has captured and described. They conform a broad study of a crisis, an outline for an investigation of a specific phase of capitalism, and an investigation of measures undertaken in response to a crisis. Within them, one can alternately find:

⁸⁵ *TMMR*, 26 May 1866.

1) A clear picture of the events surrounding the crisis of 1866, together with analyses and interpretations;

2) A summary of a long list of available statistics (reserves, bank notes, clearing houses, joint-stock companies, capital structures, securities negotiated on stock exchanges, dividends, etc.) - a "storage of knowledge", to use Michael Heinrich's suggestion in Tokyo's discussions;

3) Indications of transformations under way in capitalism, caused on one hand by a type of leading companies (railways, joint stock companies) that depended on new credit institutions in order to appear and expand, and on the other by the changes in the financial institutions themselves (debentures, shares, stocks, limited liability companies);

4) Investigations of joint-stock companies and limited liability firms as a powerful counter-tendency to the fall of the rate of profit (MEGA2, II.4.2, p. 502);

5) Detailed descriptions of multifarious aspects of the complex machinery of financial markets, connecting bank reserves, shares, securities, and foreign exchanges;

6) An investigation of post-crisis measures, in particular the suspension of the Bank Act of 1844 with the purpose of containing the panic and its spread;

7) A description of the intense activities undertaken by Parliament in response to the crisis, which set about to reform, change, and improve legislations in order to adapt them to a new stage. This also indicated that important political and economic actors would not withstand government inaction: shareholders, investors, auditors, newspapers, the Bank of England, bankers in general, and the Chambers of Commerce were all taking steps to secure changes in laws related to the protection of investors and the financial health of institutions;

8) A wealth of material to be used in a future edition of Book III: new data, new information, new perspectives on the institutions described in the Manuscripts of 1863-65 - inter alia the lack of references to limited liability firms in Volume III of *Das Kapital* is an additional evidence that Marx would have done a huge editorial work.⁸⁶ The attention devoted by Marx on this new form of financial organization of firms in his Register for his notes of TMMR in B101-B109 is a strong clue of that editorial change.

9) an independent piece of analysis in itself, a source that can be read and studied to understand the crisis of 1866.

The notebooks, therefore, represent an investigation of a specific crisis, but they go much beyond that. In a larger sense, they are also an investigation of structural changes in capitalism, as illustrated by the intense legislative activity sparked by crisis of 1866. Marx's investigations on stock exchanges and related structural changes seem to have given him a new perspective from which to investigate changes in capitalism.

⁸⁶ In fact, there is one reference to limited liability firms in Volume III, but it is in the Addendum 2 - *The stock exchange* - prepared by Engels (1894, p. 1047). The authors thank Alex Callinicos for this observation in a personal communication.

For instance, his investigations from Notebooks on the crisis of 1866 might have helped him to establish a clearer relationship between credit, joint-stock companies and railways. Pradella (2010, pp. 90-91) shows how the elaboration on centralization of capital was introduced by Marx in the French edition (in 1872-1875) - and included only in the fourth German edition -, in a long paragraph that highlights the relationship between credit, joint-stock companies, and railways:

But accumulation, the gradual increase of capital by reproduction as it passes from the circular to the spiral form, is clearly a very slow procedure compared with centralization, which has only to change the quantitative groupings of the constituent parts of social capital. The world would still be without railways if it had had to wait until accumulation had got a few individual capitals far enough to be adequate for the construction of a railway. Centralization, on the contrary, accomplished this in the twinkling of an eye, by means of joint-stock companies. (MEGA II.7, p. 549; and II.10, p. 563).

This passage identifies a revolutionary role for stock exchanges in a new stage of capitalism, probably a consequence of his investigations during 1868 and 1869.

Those changes, on one hand, pointed to processes that would only be completed in the United States – another variety of capitalism in formation. The transformations in the London Stock Exchange and the financial structure of British firms did not go very much further. With the privilege of hindsight, Hilferding (1910) showed how Germany (and the US) took this process further, effectively going from a "modern enterprise" – railways – to a "modern industrial enterprise"; financially, this meant the transition from joint-stock to corporate firms. Chandler (1990) described how the UK lagged behind Germany and the US in this transition, retaining a form of "personal capitalism" in contrast to the "managerial capitalism" emerged in the latter two countries. Marx might have sensed this process when he mentioned to John Swinton (interview in *The Sun*, 6 Sep. 1880) his interest in the credit system of the US. Sometimes structural changes in capitalism might be related to the emergence of new leading centres of accumulation.

On the other hand, these investigations may have helped his understanding of the complex nature of the expansion of capitalism to non-capitalist areas such as Russia. The institutions of capitalism investigated in the 1868-69 notebooks became part of Marx's framework; it thus became possible to integrate stock-exchanges, capitalism, and its expansion towards Russia within the same analytical effort. In a letter to Vera Zazulich, for instance, Marx wrote:

In descending from theory to reality, no one can disguise the fact that the Russian commune now faces a conspiracy by powerful forces and interests. Not only has the state subjected it to ceaseless exploitation, it has also fostered, at the peasant's expense, the domiciliation of a certain part of the capitalist system – stock exchange, bank, railways, trade... (Marx-Zazulich Correspondence, February/March 1881)

Selecting Russia and the United States meant not only choosing to study alternative paths to capitalist development, but also capitalism as a heteronomous and complex set. It meant understanding the concrete as "synthesis of multiple determinations, unity of the diverse" – precisely the level of abstraction planned for Book III of *Das Kapital*.

The intended use for the notebooks is very difficult to establish, maybe simply a matter for speculation. However, Marx's studies after the drafts of 1857 to 1867 followed a very clear agenda, revolving around the money market, international trade, credit, and crises. The notebooks from this period compose an important register for economic history on their own right. When one analyzes the four sections of the complete works of Marx and Engels, their meaning becomes more than evident, with each section involved in the making of the other three. A few years ago, Christie's auctioned three letters written by Marx, totaling ten pages, for £46,850. The letters were addressed to Dobson Collet, and transformed into the article "How Mr. Gladstone's bank letter of 1866 procured a loan of six millions for Russia", published in *The Diplomatic Review* on November 1868.⁸⁷ The entire article was based on notes taken from *The Money Market Review* during that year. Had these notes been effectively used in *Das Kapital*, they would have appeared, in different ways, in the four "*Abteilungen*" of the MEGA2 edition. Nevertheless, as pointed out here, the notebooks were also a moment of creation, where the writing sometimes became research, as in the case of the four drafts. The value of this unpublished material is still priceless. That is why we eagerly await for the publication of MEGA2 Volume IV.19!

⁸⁷ MEW, v. 16, p. 334.

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