

Prof. Dr. Rolf Hecker, Ewaldstr. 13, 12524 Berlin, Germany

Email: hecker.rolf@gmail.com, rolffritzhecker@online.de

Rolf Hecker

Marx' Critique of Capitalism during the World Economic Crisis of 1857*

In the second half of 1857 and in the first three months of 1858, Marx made a significant and important change to his working method, one that allowed him to consolidate several strains of his thinking. He did not go to the library of the British Museum, but turned his modest study room into an analysis center: "I am working enormously, as a rule until 4 o'clock in the morning. The work is, in fact, a double one: 1. Elaborating the outlines of political economy ["so that I at least understand the groundwork before the *déluge*"] 2. The *present crisis*. Apart from the articles for the *Tribune*, all I do is keep records of it, which, however, takes up considerable amount of time. I think that, somewhere about the spring, we ought to do a pamphlet *together* about the affair as a *reminder* to the German public that we are still there as always, and *always the same*. I have started 3 large record books – England, Germany, France. All the material on the America affair is available in the *Tribune*, and can be collated subsequently." (CW 40, 224/225)

Marx is working on his economic manuscript, the "Grundrisse": he drafts notebooks I–IV in the period from about mid-October 1857 to the end of January 1858. He also draws up three large scrapbooks in which he collects materials about France, England and Northern Europe, including Hamburg. He evaluates the most important British daily newspapers: there are approximately 1500 passages cut out, thematically organized, and pasted. He also composes the weekly articles for the "New York Tribune": ten articles on the crisis composed from November to February, seven of which use the collected material. The reference to the possible composition of a "pamphlet" in the spring of 1858, was typical of Marx's optimistic spirit. However, he had already aborted two pamphlet attempts in 1857: namely, the "Revelations of the Diplomatic History of the 18th Century" and a pamphlet against Bruno Bauer's assessments of the Crimean

* See Marx-Engels-Gesamtausgabe, vol. IV/14: Karl Marx: Exzerpte, Zeitungsausschnitte und Notizen zur Weltwirtschaftskrise (Krisenhefte) November 1857 bis Februar 1858, Berlin: De Gruyter 2017, ed. by Kenji Mori (Sendai), Rolf Hecker (Berlin), Izumi Omura und Atsushi Tamaoka (Sendai) unter Mitwirkung von Fritz Fiehler (Husum) und Timm Grassmann (Berlin).

War. One asks: into which "melee" did he want to plunge with a pamphlet? At least the following topics would have been the main focus: France, bankruptcies, the money market, the commodity and industrial market and, finally, the labour market.

1. A central point in Marx's crisis studies were the developments in France

Marx combined the possibility for social change with a crisis situation. At that time, this was particularly true in France, where Marx saw the greatest chances for a revolutionary convulsion. As he understood it, and as he had explained two years before in a forceful public speech, the "antagonism between modern industry and science on the one hand, and modern misery and decay on the other, this antagonism between the productive forces and the social relations of our epoch" was an established fact. "New forces of society" are born from this antagonism – "and these are the workers". He expressed the hope that the workers "would be helped by the social revolutions originating in industry towards the emancipation of their own class in the whole world". This new class, the working class, would further the revolutions begun in 1848 into a new society.

The outbreak of the crisis in 1857 in the USA affected not only Great Britain but also the European continent. Marx's focus was, above all, France: since 1856 he had repeatedly claimed since that it was about to collapse, primarily because of the "gigantic speculation with Russian railway lines." Now he opined "The blowback on French industry was immediate:" as he wrote to Engels, "since the silkware is now sold off as inexpensively in New York as it is made in Lyon." But how was the current crisis cycle actually developing in France? Three examples can be mentioned as an answer to this question, all three of which contradict Marx's expectations:

- First of all there is the railway financing by the Bank of France. With regard to the securities traded on the Paris stock exchange, it was clear that the price for government bonds or the shares of railway companies had come under pressure, but this could not be described as a crash. This moderate course of crisis was evidently due to two circumstances. First, the loss of gold and silver had been averted. In a crisis, a central bank will exchange foreign currencies or commercial bills into gold or silver. Less involved in this, the Bank of France did not limit lending and issuing of notes. Secondly, with the remaining reserve, the Bank of France was able to demonstrate its intention to secure the financing of railway construction. Not without recollection of 1847, the Bonapartist government had also been strong in supporting the construction of railways, as it issued increased

interest rates upon a withdrawal from the Bank of France, in consonance with the Bank of England.

- The crisis has had comparatively moderate and quite different effects on the commodity markets. Industrial Lyon and many other provinces were struck more than Paris. The center also followed the provinces with pay cuts, redundancies and short-time work. In the misery, the French economy was exposed to the Bank of France's ruinous interest rate policy, but when the lending rate was revoked on November 26, 1857, the economy and the public could hope for an improvement.
- Marx closely followed the development of food prices. Under the lasting impression of the crisis of 1847, the elephant in the room was the question of whether there would again be difficulties in the supply of food, and, therefore, food riots. This danger seemed to be banished in the autumn by the favorable harvest, which the Bonapartist regime repeatedly emphasized. But with the crisis, agriculture threatened a decline in its prices, which the government sought to prevent by liberalizing the trade of grain. The bakeries were to provide an anti-cyclical stockpile of flour. The prices remained under pressure. This price trend stressed the urban population, which, with the crisis, suffered a considerable loss of income for trade and crafts. Thus the urban demand for food was weakened. Thanks to the state intervention, however, the agrarian crisis has been limited.

For Marx it was a "mystery" why France was relatively spared from the world crisis. His letter to Engels dated December 25th, 1857 was dedicated to this mystery; in it he once again expressed the opinion that Napoleon "would hardly be able to escape" in 1858. A newspaper article "The French Crisis", was written the same day and published in the NYDT of January 12th, 1858. He argued that the trade balance of France, in particular, was favorable to her major trading partners such as the UK, the USA and the Hanseatic cities.

2. Bankruptcies

Marx began his research for the "Book of the Crisis of 1857" with the preparation of bankruptcy data, which he had collected before the section on the money market. In the third "Book of the Commercial Crisis", Marx integrated the bankruptcy data into the money market section. Under the heading "Failures", he compiled about 240 bankruptcies on seven pages, drawing from press reports from November 14th to January 23rd. Bankruptcies are the most obvious crisis symptoms: the number and scope of them is a measure of a crisis. As early as December 19th, the Times estimated the total sum of the liabilities of companies that had become insolvent during the crisis was about 50 million pounds, twice as high as in the crisis of 1847. The suspension of payments from five Large banks, with a total liability of 23 million pounds, was symbolic of the new crisis.

Marx, of course, could not detail all bankruptcies: for example, there are no details of insolvencies in the retail or service sector, such as food merchants, bakers, innkeepers and hotel owners. He concentrated on the bankruptcies that had occurred prior to December 10th, which he had recorded on the first page of the "Book of the Crisis of 1857", and he investigated all bankruptcy cases in London by means of the Times and the Economist. These were mostly London trading houses, which were mainly active in Scandinavian, German and American trade. After December 11th the focus of his lists shifted to producers and retailers from the industrial areas of the country, in particular from the textile and iron industry: almost 1000 companies are mentioned in the MEGA volume. This shift in emphasis apparently signals the expansion of research into industry, that is, to the area that Marx regarded as the real source of crisis.

3. Money Market

Marx observed the English money and securities market from four main viewpoints: the Bank of England, the bullion market, the loan market, and the securities market. On November 14th, the "Economist" reported on the week that marked the climax of the 1857 crisis. During this time, two major banks were not making payments anymore: the "Western Bank of Scotland" and the "City of Glasgow Bank". The Bank of England's lending rate reached an historical high of 10%. The Bank Act of 1844 had to be suspended. And at this moment, Marx began to collect balance sheet data and "Economist" commentaries.

Marx began his research on the *Bank of England* at the very moment when the Bank's balance sheet showed the lowest possible values. This was why, contrary to his expectations, he did not document the worsening of the financial crisis. This clearly shows the timeline during which Marx made his studies.

The most important stages in the recovery process of the Bank of England balance sheet in November / December were as follows:

- On November 12th, the Banking Act was suspended. Additionally, bank notes for 2 million pounds were issued by transferring government bonds in the same amount from the bank to the note department.
- On November 18th, the "Reserve" of the Bank of England, which the "Economist" and Marx defined as the sum of banknotes and coins in the Bank Department of the Bank of England, began to increase again.
- This was also the case on November 25th for the bullion of the Bank of England, defined as the sum of gold and silver in the issuing department and the coin reserve in the bank department. This increase in "Bullion" was seen as an "improvement in the situation of the bank". This recovery took place thanks to the increasing influx of gold from the USA and Australia. Marx emphasized that this was a special event in the course of the crisis: On December 16th, the post ship "Atlantic" arrived in Liverpool with 340,000 pounds in gold bars from New York. The arrival of the gold marked a turning point in the course of the crisis for the money market and the markets of the cotton industry, as this gold import contributed decisively to the increase in the gold reserve of the Bank of England and thereby facilitated lending.
- On December 2nd, the stock of private securities in the Bank of England began to decline, relieving the pressure of demand for money. Combined with the decrease in private deposits in the bank, this decline also meant an increasing willingness of the commercial banks and discount houses to do their own discount business with cash withdrawn from the Bank of England.
- On December 24th, London reintroduced the Bank Act. The additional banknotes that had been issued, worth two million pounds, had fulfilled their purpose. At the same time, the Bank of England lowered the lending rate from 10% to 8%. The "Times" declared on December 28th that the "crisis is over" !
- After the turn of the year, a growing influx of money continued to ease the market. The first report of the year on the lending market was: "Money is eager for employment."

As early as November 6th, Marx sent his first official statement on the crisis to the Tribune, which is the article "The Banking Act of 1844 and the Money Crisis in England" (published on November 21, MEW, Vol. 12, p .319). On this date in his notebook of 1857 Marx noted: "England monetary crisis (R. Peels act.)". In it he gave a historical review of the bank act of 1844 and analyzed the current financial crisis. His forecast was that the British government would soon remove the bank act. This is the only prognosis that proved to be right. In the letter to Engels of December 8th, he therefore wrote his "satisfaction" with this article.

4. Raw material and the industrial market

Marx assumed that this crisis would lead to a "double crisis". The rapid expansion of industrial production would surpass the supply of raw materials, and thus underproduction of raw materials would coincide with overproduction in industry. He was very interested in proving his prediction on the basis of empirical data. According to his thesis, the financial crisis should be followed by an industrial crisis, and this industrial crisis, which focused on the textile industry, would coincide with a crisis on the commodity and agricultural market.

The textile industry was by far the most important industry in Great Britain in the 1850s, accounting for more than half of British export sales. It was, therefore, logical that Marx's attention was drawn to the analysis of the economic situation in the textile industry. This attention is clearly reflected in the structure of excerpts. In the "Book of the Crisis of 1857" and "Book of the Commercial Crisis", the commodity market is divided into "raw materials for textile fabrics" and "raw materials not for textile fabrics". Among the latter are all other raw materials, such as metals, skins and leather, colonial goods and grain.

The textile industry is, on the one hand, connected to the commodity markets for cotton, wool, silk, flax, and linen as its procurement markets and, on the other, to the industrial markets for yarn, fabric, clothing, lace, and carpets as sales markets. Within the textile industry, the cotton industry dominated the export value of British textiles in the year 1857 (63%), followed by wool (22%), linen (10%) and silk (5%). In order to document this role of the cotton industry, Marx, in addition to prices for raw cotton, also noted the prices for the finished products of the cotton industry such as yarn, fabric, and shirting.

Marx systematically collected price data from the "Economist" for both the cotton industry's raw materials and its finished products. The timeline during which he collected this data illustrates certain characteristics of the relevant period. The cotton curve stands for the average price index of four raw cotton yarns and the textile product curve for the average price index of eight textile products, with the price level of July 1856 set to 100. The third curve is the ratio of the textile product price index to the cotton price index, which is intended to summarize the earnings situation of the industry as a ratio of the sales price to the procurement price. On November 12th and 19th, no price information for cotton was possible because the "Economist" had no significant sales. The chart shows that:

- Cotton and textile products experienced a drastic price fall, 34% and 23% respectively, between October 22nd and December 17th.
- Before the crisis began, the price level of both cotton and textile products was much higher than in 1856. In fact, the procurement price had risen more sharply than the sales proceeds, so that the earnings situation of the industry was constantly worsening. At the end of the falling prices in December, both prices were restored the previous year's level (100).
- During the period from December 3rd to January 21st, prices reached their low point around December 17th and began to recover on December 24th, when the banking act came into force again and the lending rate was reduced from 10% to 8%. Again, the price of raw materials rose more than the price of finished textile products, as was the case before the crisis began.

The development of the cotton industry, which Marx documented in this way, was essentially a change in the direction of economic recovery and not a continuous aggravation of the crisis. Within the textile industry, however, the course of the crisis varied from sector to sector. In contrast to the cotton section, wool, the second-largest division of the textile industry, showed no appreciable recovery during this period.

5. Labour market

Marx collected excerpts from "The Manchester Guardian" during the period from December 9th–19th, gathering information about the workers and factories in Manchester and Salford affected by partial work hours. The Manchester part-time statistics, compiled on Wednesdays by the city's police president, appeared on Thursday, December 26th, 1857, in The Manchester Guardian, beginning when part-time work in the city had reached its peak. These statistics on the employment situation are shown in the graph. The curves show the number of those employed in the cotton or silk industry who were affected by part time work or who were completely unemployed: again, the stretch of time that Marx researched is shaded. The labour market crisis can be attributed to the crisis in the commodity and industrial markets: for the development of markets, December 16th was the turning point for a slow recovery. At the time, the silk industry was not yet better than the cotton industry in its worst phase.

Strikes were the main working conflicts reported; there were also demonstrations and meetings of ship builders, iron founders, potters, miners, seafarers, nail-forgers, wire-workers and button-makers. Marx was particularly keen to follow the strike of miners and iron smiths in the industrial district "the Potteries" in North Staffordshire. This had begun on December 16th, 1857, in response to the announcement of a daily wage cut of 6 pence by employers and had escalated into violent confrontations with the police. On January 11th, 1858, the Manchester Guardian finally announced the return of almost all workers to the workplace and the situation of the newly reduced wage.

The protests of those receiving poor relief were directed against the so-called "Workhouse Test" to qualify to receive aid; against the amount of assistance and the mode of its disbursement; and against working conditions in the workplaces., Marx pursued with particular interest the "mutiny" of the "outdoor pauper labourers" in Preston, who were employed for work outside the workplace, in this case in a bog. They protested against the decisions of the board of guardians to pay a subsidy for the second day instead of a daily allowance, and to require a full-day's work instead of half-day.

Conclusions

I come now to some conclusions. Marx's books of the crisis are, in the first place, a documentation of crisis on various markets during the period from November 1857 to February 1858. Because of their varied and meticulous data collection, it would not be entirely wrong to consider them as a continuation of Tooke and Newmarch's "A History of Prices", which had been on the subject of economic development in England and France up until 1856. While these dogmatic historical classics were motivated by the refutation of the quantitative theories of pricing and the criticism of the Banking Act of 1844, Marx was motivated by his need to prove his crisis theory empirically. The immediate results of the studies in the crisis notebooks are obviously the seven "Tribune" articles that were written in parallel. More serious, however, were their indirect and theoretical consequences. **(1) In Marx's research process, this is his first thematic discussion of the multiplicity of the markets.** He is confronted here with the fact that crisis phenomena differ greatly in their temporal sequence in individual countries. Crisis phenomena also differ greatly in the individual submarkets of a country, such as the difference between the money market and the commodity market. Finally, crisis phenomena also differ as to their concern, as between the cotton, wool and steel industries. This enormous diversity of markets inevitably confronted Marx with the theoretical problem of how the network of different submarkets correlates in its function and dysfunction, and how its dynamics are fundamentally determined: a problem that has been described in the "Grundrisse", written according to the books of the crisis.

(2) Period of cycle not 3-4 years, but 8-10 years.

To return to the beginning: the relationship between social revolution and the overproduction crisis in relation to other views of that time would certainly have been an exciting subject for a pamphlet. **(3) Marx, however, had to recognize that the French and British government's control measures soon led to a relaxation in the money and capital markets,** and rising exports to new markets stimulated industrial activity. Thus, the first step in his observation, documented in the crisis, would have been made in Heft IV of the "Grundrissen", on which he was working at this time. The crisis is examined there via the concept of general overproduction. It seemed to him that Engels, who wrote to him on December 11th, had also confirmed this idea: "Never before has overproduction been so general as during the present crisis, and there's no denying that this applies to colonial produce and also to corn. That's what's so splendid, and is bound

to have tremendous consequences. After all, so long as overproduction was confined to industry the thing was only half-way there, but as soon as agriculture is also affected, and in the tropics as well as in the temperate zone, it will become spectacular." (CW 40, 220) In the following years, during the development of "Capital", **(4) Marx broke away from the idea of a direct connection between the crisis and the revolution.**

(5) At last: Marx wrote to Lassalle about a 6-Book-Plan (February 22, 1858, CW 40, 270):
"The work I am presently concerned with is a *Critique of Economic Categories* or, if you like, a critical exposé of the system of the bourgeois economy. ... The whole is divided into 6 books: 1. On Capital. 2. On Landed Property. 3. On Wage Labour. 4. On the State. 5. International Trade. 6. World Market."

Translation: Amy Wendling