



## The 1822–1825 Latin American Bubble and the Formation of Crisis Theory in Early Marxism: From Marx to Tugan-Baranowski

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This paper examines the relationship between Marx's remarks on the crisis of 1825 and the analysis developed by Mikhail Ivanovich Tugan-Baranowski in *Industrial Crises in England* (1894). The aim is to show how Tugan-Baranowski draws on the hypotheses formulated by Marx, which he extends and develops in his interpretation of the 1825 crisis. These hypotheses concern the links between overproduction and financial speculation, as well as the conditions of commercial capital turnover as mechanisms for the international spread of crises. As the leading economist of Legal Marxism—a current of economic thought from the late 19th century—Tugan's analysis of crises sparked controversies shaping Marxist debates on the subject.

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## Introduction

Each era reinterprets past crises in light of its present concerns. In the history of monetary thought, the 1825 crisis was revisited during the interwar period to draw comparisons between the deflationary pressures associated with the return to gold convertibility of the pound after the suspension from 1797 to 1821, and those following the end of convertibility between 1914 and 1925. “Hostility to the resumption of payment in specie was as strong in England [at this period]<sup>1</sup> as was the objection to the return to the gold standard in 1925 and particularly in 1931” (Rist 1966 [1938], 183). More recently, scholars have revisited the 1825 crisis considering questions raised by the 2008 financial crisis. Thus, as noted in a recent study on the long-term stability of the British banking system, “there have been [only] two major or systemic banking crises in Britain in the past two centuries: 1825–6 and 2007–8” (Turner 2014, 35).

A common denominator of studies on the 1825 crisis is its consistent association with speculation on bonds issued by the new states that emerged from the collapse of the Spanish empire in the Americas. Between 1822 and 1825, seven Latin American states issued more than £20 million in bonds in London. By 1829, £19 million were in default (Dawson 1990). During the same period, securities were issued in the City to finance enterprises exploiting the natural resources of these new countries. Although historians differ in their assessment of the role this financial bubble played in causing the crisis (Kindleberger 2005 [1978]; Neal 1998; Turner 2014), it is only since the final decades of the twentieth century—following the outbreak of the Third World debt crisis in 1982—that this episode has been the subject of in-depth studies. Among the syntheses written during the “lost decade,” Vitale (1986) and Marichal (1988) respectively situate the 1825 crisis within the long history of Latin America’s external debt crises. As for Dawson (1990), he reconstructs the sequence of events and timeline that led to this “first” Latin American debt crisis.

In addition to the press and official sources, theoretical studies of the 1825 crisis draw on the analyses of contemporary politicians and economists. These analyses constitute the raw material for reconstructing explanations of crises in the history of monetary thought. Within this field, analyses of the 1825 crisis can be grouped, for clarity of presentation, around three key issues: transformations in the structure of the English banking system (beginning with the emergence of joint-stock banks) following the new legislation of 1826; controversies surrounding the dominant position of the

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<sup>1</sup> In the original, Rist writes “at that time,” referring to the period following the 1819 legislation and the effective return to convertibility in 1821. This period encompasses the “popular anger” during the 1825 crisis reported by Fullarton. The English translation inadvertently replaced “at that time” with “1819.”

Bank of England before the formalization of its monopoly on note issuance in 1844; and the definition of monetary policy, particularly the genesis of the Lender of Last Resort principle.

Thus, O'Brien (1993) reexamines the role of Thomas Joplin in the modernization of the English banking system and his contribution to the creation of joint-stock banks. Fetter (1965) identifies three key moments in the formation of British monetary orthodoxy during the 1825 crisis: the debate between Parnell—a supporter of free banking—and McCulloch over the Bank of England's responsibility for the crisis (Fetter 1965; Skaggs 2003; Arnon 2011, 262–270); the early outlines of the Currency Principle in 1827; and the formulation of Palmer's Rule.

Rist (1966 [1938], 172) revisits the 1825 crisis to recall how the “depreciators and inflationists” of the Birmingham School attributed it to the return to convertibility at par in 1819. According to Boyer des Roches (2003, 92–93), the 1825 crisis set the terms for the future confrontation between the Banking School and the advocates of the Currency Principle. Laidler (1975) identifies it as the starting point of Tooke's reflections on banknote convertibility and his pragmatic recommendations for monetary policy. Skaggs (1994) sees in the positions defended by Mill in 1826, in the aftermath of the crisis, an anticipation of the theses later formulated by the Banking School. More recently, Béraud (2013) compares the views of McCulloch, Mill, and Tooke on the 1825 crisis.

Finally, O'Brien (2003) analyzes the 1825 crisis from the perspective of the emergence of the central banking principle, which he traces back to Joplin—thereby establishing a “missing link in the history of the concept of Lender of Last Resort between Thornton and Bagehot” (Arnon 2011, 304). In this regard, he updates and extends a hypothesis already advanced by Rist (407–409).

When examined by historians of monetary thought, Marx's analyses of crises are most often linked to his position in the Banking–Currency debate during the crises of 1847 and 1857, and more broadly, to the interpretative challenges raised by his rejection of both theories of money. However, Marx's reflections on the 1825 crisis clarify certain aspects of the Bank of England's policy prior to the Bank Charter Act of 1844. More importantly, they illuminate the relationship between financial speculation and overproduction, as well as the role of commercial capital turnover in the international transmission of the crisis.

In this article, we highlight these contributions through the work of one of the first historians and theorists of capitalist crises: the Russian economist Mikhail Ivanovich Tugan-Baranowski (hereinafter referred to as Tugan). Tugan offers an analysis

of the speculative bubble that burst in the 1825–26 crisis, drawing on hypotheses formulated by Marx, which he extends and develops. These hypotheses concern the relationship between overproduction and speculation, as well as the conditions of commercial capital turnover as mechanisms for crisis propagation. By “crisis,” we refer to a disruption in the reproduction process in Marx’s sense. By “early Marxism” or the “golden age” of Marxism, as Kolakowski (1987 [1976]) calls it, we refer to the period of development of Marxist critique between the publication of volumes II (1885) and III (1894) of *Capital* and the outbreak of World War I. It was in 1894 that the first edition of Tugan’s *Industrial Crises in England* appeared. This work—still unavailable in English—occupies a pioneering place in studying cyclical crises from 1825 to 1910 and their Marxist interpretation. We draw on the second revised and expanded edition, which formed the basis for the 1913 French translation (*Les crises industrielles en Angleterre*) and his *Theoretical Foundations of Marxism*, published in 1905 and translated into Spanish in 1915.

Several studies have examined Tugan’s relationship with Marx. Some approach the topic through a reconstruction of Tugan’s overall contributions, highlighting the various intellectual influences he absorbed within the context of pre-Soviet economic thought (Karataev et al. 1964 [1963]; Kowal 1965; Nove 1970; Howard and King 1990; Barnett 2005; Allisson 2015). That said, most studies focus on five main themes. The first concerns Tugan’s critique—taken up by Lenin (1960 [1899])—of the underconsumptionist theses defended by the Russian narodniks or “populists” in the debate over the prospects for capitalist development in Russia at the end of the 19th century. The second addresses his interpretation of crises as stemming from intersectoral disproportions, in the sense of Marx’s reproduction schemes—a view partially adopted by Hilferding (1910) and rejected by Luxemburg (1969 [1913]). The third theme indirectly explores the Marx–Tugan relationship through the Russian economist’s contributions to business cycle theory (Barnett 2001; Allisson 2011; Besomi 2006; Adair and Nezhyvenko 2021). The fourth concerns Tugan’s critique of the internal consistency of the labor theory of value and his rejection of the proposed solution to the transformation problem, i. e., the conversion of values into prices of production (Bukharin 1967 [1919]; Faccarello 2000; Van Bambeke 2009). A final area of inquiry centers on his refutation of the correlation between rising labor productivity (and reflected in the organic composition of capital) and the tendency of the rate of profit to fall (Dostaler 1978; Allisson 2015).

Our study is structured into six sections. The first situates the 1825–26 crisis within Marx’s broader analysis of crises. The second focuses on Marx’s reflections concerning the relationship between speculation and overproduction during the 1825 crisis,

followed by a third section examining the role of commercial capital turnover. The fourth section clarifies how Tugan's theory of crisis relates to Marx. The fifth explores Tugan's analysis of the origins and dynamics of the Latin American financial bubble of 1822–25, while the final section considers his examination of the relationship between circulation and production in the unfolding of the 1825 crisis.

### 1. The Place of the 1825 Crisis in Marx's Analysis of Crises

We must begin with two general observations to draw lessons from Marx's reflections on the 1825 crisis. The first concerns the place Marx assigns to the analysis of crises within his critique of political economy. In 1857, Marx outlined a plan for his major project consisting of six books: (1) Capital; (2) Landed Property; (3) Wage Labor; (4) The State; (5) Foreign Trade; and (6) Crises and the World Market (Marx 2010 [1858]). Although revised several times (Grossman 2013 [1929]; Rosdolsky 1977 [1968]), the plan consistently situates the question of crises within the study of the "real movement of competition" at the world market. This is because demonstrating the necessity and reality of crises first requires an understanding of the "inner organization" or "ideal average" of the capitalist mode of production (Marx 2010 [1894], 818).

Marx distinguishes the general possibility of crisis from its specific forms. The possibility arises from the commodity nature of exchange—that is, the non-coincidence between private labor and social labor. Under capitalist conditions, this non-coincidence is manifested through the risks and uncertainties involved in the metamorphosis of commodity-capital into money-capital. As for the forms of crisis, they are determined by the functions of money. Thus, the more money operates as a means of payment, the more credit expands—and with it, the phenomenon of "overcredit." Under such conditions, if a crisis occurs, it assumes the specific form of a monetary crisis. For Marx, to mistake these forms with the content of crisis itself is both a theoretical absurdity and a historical misinterpretation.

Simple circulation of money and even the circulation of money as a means of payment—and both come into being long *before* capitalist production, while there are no crises—are possible and actually take place without crises. These forms alone, therefore, do not explain why their crucial aspect becomes prominent and why the potential contradiction contained in them becomes a real contradiction. (Marx 1980 [1905], 142)

Now, for Marx, it is precisely this kind of conflation that economists engage in when they turn their attention to crises. However, merely acknowledging the possibility of crises, he adds, leads economists to interpret their actual occurrence as the result of

chance and contingencies (Marx 1980 [1905], 142). Therefore, going beyond the analysis of possibility and demonstrating the necessity of crises—and thus advancing to the study of actual crises—requires an understanding of “the real movement of capitalist prices,” competition, and credit.

In so far as crises arise from *changes in prices* and *revolutions in prices*, which do not coincide with *changes in the values* of commodities, they naturally cannot be investigated during the examination of capital in general, in which the prices of commodities are assumed to be identical with the values of commodities. (Marx 1980 [1905], 145)

This dimension of the analysis, repeatedly anticipated throughout the four books of *Capital*, was, strictly speaking, meant to constitute the material for the book on *Crises and the World Market*. As a result, there exists a gap (or theoretical hiatus) in Marx’s work between, on the one hand, the analysis of the “internal organization” of capitalist production and, on the other, digressions in the form of concrete studies of crises between 1825 and 1867. What remains missing—or incomplete—is the analysis “of the real movement of competition.”<sup>2</sup>

The controversy surrounding the relationship between the three volumes of *Capital* and the successive plans for the critique of political economy is itself symptomatic of this gap. In a review of the main responses formulated prior to the 1929 crisis—in both the West and Japan—regarding the relationship between *Capital* and Marx’s initial project, Samezō observed that: “Solving this problem, clearly, is pivotal to the study of Marx’s economic theory, particularly his theory of crisis” (Samezō 2024 [1930], 75).<sup>3</sup> Whatever position one adopts on this issue within Marxology, the history of the formulation of crisis theory in Marxism can be interpreted as a history of attempts to fill this gap—either by drawing on indications provided by Marx himself or by advancing ad hoc hypotheses.

Be that as it may, even though the book on *Crises and the World Market* was never written, Marx’s critiques of the explanations offered by economists for crises must be assessed in light of whether or not they take the world market into account. This applies, for example, to Marx and Engels’s critique of underconsumptionist

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<sup>2</sup> For a compilation of Marx and Engels’ writings on crisis, see the collection edited and introduced by Roger Dangeville (Marx and Engels 1978). Among the extensive secondary literature on crisis in Marx’s work—a subject that exceeds the scope of this paper—we will limit ourselves to citing Makoto Itoh’s study (1978), which remains one of the most comprehensive commentaries on how Marx integrates the various factors and dimensions of crisis. For an overview of the history of the debate on crisis within Marxism, see O’Connor (1987), Clarke (1994), Tutin (2000), Norton (2012), and Samezō (2024).

<sup>3</sup> The author discusses the respective proposals of Karl Kautsky, Robert Wilbrandt, Hajime Kawakami (the translator of *Capital* from German into Japanese), and Henryk Grossman.



explanations of crises. Thus, although they reject his explanation of their causes, Marx and Engels recognize that Sismondi's underconsumptionism never loses sight of the world market—unlike that of Johann Rodbertus, who does not go “beyond the Prussian border” (Engels 1976 [1884], 22).

In short, before examining its causes, the 1825 crisis must be situated within the history of the world market. This crisis occurred during the “infant period of world trade,” as Marx and Engels describe the 1815–1847 interval (Marx 2010 [1894], 819). As we shall see, Tugan will take this characterization of this period in the history of the world market into account in his interpretation of both the causes and the mode of propagation of the 1825 crisis.

The second observation concerns the dual character of crises: both periodic and singular. The 1825 crisis is notable in that it “for the first time opens the periodic cycle of [the] modern life [of large-scale industry]” (Marx 2010 [1873], 15). This will likewise serve as the starting point for Tugan's analysis of the 1825 crisis. However, as Marx observes, the crisis occurred at a time when “modern industry was only just emerging from the age of childhood.” It also took place during a period in which “the class struggle between capital and labour is forced into the background, politically by the discord between the governments and the feudal aristocracy gathered around the Holy Alliance on the one hand, and the popular masses, led by the bourgeoisie, on the other; economically by the quarrel between industrial capital and aristocratic landed property” (Marx 2010 [1873], 15). For Marx, the development of economic thought goes hand in hand “with the *real* development of the social contradictions and class conflicts inherent in capitalist production” (Marx 1980 [1905], 500). From this perspective, the period from 1820 to 1830 “was notable in England for scientific activity in the domain of political economy. It was the time as well of the vulgarizing and extending of Ricardo's theory” and its struggle against other schools derived from the doctrine of Adam Smith (Marx 2010 [1873], 14). Thus, the 1825 crisis is the only one to have been analyzed in a context in which political economy, though already confronting its own contradictions, is not yet facing the real “contradictions in the economic life of society” (Marx 1980 [1905], 501). However, in the matter of explaining crises, the internal contradictions of political economy are expressed, after the crises of 1825 and 1836, through the difficulties in preserving above all the validity of Say's Law.

Later historical phenomena, especially the almost regular periodicity of crises on the world market, no longer permitted Ricardo's successors to deny the *facts* or to interpret them as accidental. Instead—apart from those who explain everything by credit, but then have to admit that they themselves are forced to presuppose the *superabundance of capital* —they invented the nice distinction between *plethora of*

*capital and overproduction*. Against the latter, they arm themselves with the phrases and good reasons used by Ricardo and Smith, while by means of the first they attempt to explain phenomena that they are otherwise unable to explain. (Marx 1980 [1905], 129, Marx emphasized)

The two preceding observations help situate Marx's remarks on the 1825 crisis within the broader framework of his work. While pre-1830 capitalism revealed only certain aspects of the contradictions inherent in industrial capitalism and its class dynamics, a decisive turning point occurred in the following two decades. In classical Marxist historiography, 1848 marks the emergence of the antagonism between capital and wage labor, between the bourgeoisie and the proletariat. At the same time, from an economic perspective, it marks the end of the "infant period of world trade" and thus the beginning of the globalization of capitalist production proper. Scattered throughout their writings, the concrete analyses of crises by Marx and Engels refer primarily to the 1857 crisis. This is due both to the fact that the outbreak of the 1857 crisis prompted Marx to resume work on his critique of political economy (Stedman Jones 2018 [2016], 436–438), and to the fact that this crisis was "probably" the first to be "world-wide" (Hobsbawm 1962, 168). Although fewer in number, Marx's reflections on the critical situation of 1825 are nonetheless more significant than the examples typically emphasized by commentators on his crisis theory suggest. In addition to remarks found in *Capital*, the *Theories of Surplus Value*, his correspondence, and his newspaper articles, the four British parliamentary commission reports on the crises of 1847 and 1857—which Marx used extensively in preparing Volume III—frequently refer to the links between the credit system and production dating back to the crash of 1825.

In the next two sections, we will examine how these remarks on the 1825 crisis shed light on the relationship between the circulation process and the production process in the context of crisis. At first glance, these insights pertain to the policy of the Bank of England. But more fundamentally, they illuminate the connections between speculation and production, the financial conditions underpinning speculation, and, ultimately, the role of commercial capital turnover in the 1825 crisis.

## 2. Marx on Speculation and Overproduction during the 1825 Crisis

For Marx, the 1825 crisis plays a pivotal role in the development of monetary thought and policy. In the 1859 *Contribution to the Critique of Political Economy*—a work that outlines a history of monetary thought from Hume and Steuart to the Currency School—Marx (2010 [1859], 543–544) emphasizes how the debates over the causes of



“the sudden and general fall in commodity prices following a fairly prolonged general rise in those prices” in 1825 facilitated the extension of Ricardian monetary theory by the Currency School and paved the way for the adoption of the Bank Charter Act of 1844.

The commercial crises of the nineteenth century, and in particular the great crises of 1825 and 1836, did not lead to any further development of Ricardo’s currency theory, but rather to new practical applications of it. It was no longer a matter of single economic phenomena—such as the depreciation of precious metals in the sixteenth and seventeenth centuries confronting Hume, or the depreciation of paper currency during the eighteenth century and the beginning of the nineteenth confronting Ricardo—but of big storms on the world market, in which the antagonism of all elements in the bourgeois process of production explodes; the origin of these storms and the means of defense against them were sought within the sphere of currency, the most superficial and abstract sphere of this process. The theoretical assumption which actually serves the school of economic weather experts as their point of departure is the dogma that Ricardo had discovered the laws governing purely metallic currency. It was thus left to them to subsume the circulation of credit money or banknotes under these laws. (Marx 2010 [1894], 412)

For Marx, the crises of 1847 and 1857 demonstrate, *a posteriori*, that a monetary policy which subjugates the circulation of credit instruments and banknotes to the constraints of metallic circulation drains the money market precisely at the moment when the demand for money becomes most acute—no longer reflecting a mere demand for means of circulation, but rather a demand for means of payment. In this context, a member of a parliamentary inquiry commission—whose proceedings Marx draws on extensively—poses the following question to Lord Overstone, the leader of the Currency School and architect of the 1844 Bank Charter Act: “[Question 3743:] What is the great desire of the mercantile community under pressure of panic, such as you state to have occurred in 1825, 1837 and 1839; is their object to get possession of capital or the legal tender?” And Overstone replies: “Their object is to get the command of capital to support their business” (quoted by Marx 2010 [1894], 425). Yet for Marx, in times of crisis, the real goal of businessmen “is to obtain means of payment for due bills of exchange on themselves, on account of the prevailing lack of credit, so that they will not have to let their commodities go below price” (Marx 2010 [1894], 425).

Thus, the debate over the causes and consequences of the 1825 crisis already contains, in germ, the developments in English banking legislation that would culminate in the Bank Charter Act of 1844 and the ensuing controversy between

the Currency and Banking Schools. On this subject, Marx pays close attention to the testimony of Palmer, former governor of the Bank of England, before the 1848–1857 Commercial Distress Committee of the House of Lords concerning the Bank Charter Act: “In December 1825, [the Bank would] undoubtedly have failed *in toto*, if this Act [1844] had been in existence” (Marx 2010 [1894], 553). But behind this discussion—which concerns the refutation of the assumptions of the Currency School and the Quantity Theory of Money—Marx is primarily concerned with the economists’ tendency to locate the origins and causes of crises within the dynamics of the credit system.

Moreover, the second key point of interest in the 1825 crisis lies in the relationship between overproduction and speculation. For Marx, the periodic crises since 1825 demonstrate how:

speculation regularly appears in periods when overproduction is already flourishing. It provides temporary outlets for overproduction and thereby accelerates the very outbreak of the crisis and increases its severity. The crisis itself first breaks out in the sphere of speculation and only later seizes upon production. It is not overproduction but the speculative fever—which is itself only a symptom of overproduction—that, in superficial analysis, appears as the cause of the crisis. (Marx 1973 [1850], 5)

After 1825, the explanation that attributed crises to speculative excesses could be seen as an *ad hoc* hypothesis intended to rescue Say’s Law. On this point, far from viewing the 1825 crisis as a refutation of his 1803 axiom, Say explained it precisely in terms of excessive speculation: “Such is, I believe, the cause of the crisis that plagued England in 1825 and 1826. A disordered taste for commercial enterprise led a great number of speculators to extend their business beyond the reach of their capital” (Say 1852, 416, my translation). The refutation of this thesis explains Marx’s insistence on inverting the causal relationship: it is not speculation that drives overproduction, but rather the reverse—overproduction, and thus “the laws of accumulation” that govern it, give rise to speculative fever.

But beyond an “already flourishing overproduction,” what are the specifically financial conditions that foster the outbreak of speculative fever? Marx notes that the security of government bonds is a *sine qua non* for the deployment of large-scale speculation. Without such security, “no major speculative transaction of value is possible” (Marx 1973 [1850], 13). This pivotal role of government bonds in financial portfolios is the corollary of the fact that public debt forms the backbone of the credit system (Baronian and Pierre 2012). On this point—as on others concerning the internal

mechanisms of the credit system—Marx draws inspiration from Tooke, who had shown how the consolidation of the security of European State bonds after the Congress of Vienna played a decisive role in the speculative boom in securities issued by both private companies and the new Latin American States.

The speculations in foreign loans and in shares, which constituted so large a part in the general excitement which prevailed in 1824 and 1825, had, in their origin and progress, preceded, and, in point of extravagance, outrun those which have here been noticed as having taken place in the markets for goods. Various loans to the continental states of Europe had been negotiated in this country between 1817 and 1823; and all of these [...] turned out eventually to be on a solid footing, the stipulated dividends being regularly paid. (Tooke 1838, 148)

But the security of these European public bonds could not, by itself, have played such a role had the interest rates on Exchequer bills not simultaneously declined in London. These bills were issued by the British government to finance its own debt. This drop in rates—which acted as a catalyst for speculation in 1825, an issue that would attract Marx’s attention and later be taken up by Tugan—had already been noted by Tooke (1838, 148–9). Indeed, the fall in yields made Exchequer bills less attractive to rentiers, who were thereby encouraged to seize the opportunity to acquire foreign bonds—particularly those of the newly formed Latin American States—which offered higher returns (Tooke 1838, 149). Upstream, conditioned by overproduction in England, speculation—when intensified by the fall in European bond yields—further amplifies overproduction. In short, the points raised thus far—the links between speculation and overproduction, and the specifically financial conditions of speculation—are insights from Marx on the 1825 crisis that would later be developed by Tugan. However, they do not exhaust the lessons of this crisis concerning the relationship between the spheres of circulation and production.

### **3. Marx and the Turnover of Commercial Capital in the 1825 Crisis**

The third key aspect of Marx’s remarks on the 1825 crisis concerns the role of the turnover of commercial capital. Since it conditions the interweaving of overproduction and speculation, the turnover of commercial capital plays a decisive role in the international propagation of the crisis.

While the turnover of industrial capital in Marx refers to the unity of its production period and its circulation period and thus “embraces the entire process of production,” the turnover of commercial capital refers to the autonomous movement

of commodity-capital. “A repeated turnover of commercial capital, however, never connotes more than repeated buying and selling; while a repeated turnover of industrial capital connotes the periodicity and renovation of the entire reproduction process (which includes the process of consumption)” (Marx 2010 [1894], 302). This autonomy of commercial capital is decisive for understanding the relationship between financial and commercial speculation and production. Upstream, commercial capital depends on its industrial suppliers; downstream, it enjoys relative independence in its transactions, whether these involve effective sales or fictitious ones (such as stockpiling commodities purely for speculative purposes). In any case, the autonomy of commercial capital pushes the reproduction process “beyond its own limits.” This “internal dependence” and “external autonomy”—as Marx describes them—account for the sequence of events when a crisis erupts on the world market. For the course of events and the mode of propagation of the crisis are never accidental. On the one hand, “crises do not break out, in the retail business first, which deals with direct consumption, but in the spheres of wholesale trade, and of banking” (Marx 2010 [1894], 303). On the other hand, the sphere of wholesale trade temporarily places import-export houses at the center of the process. Hence the necessity of considering the material conditions of the turnover of commercial capital in order to understand the propagation of crises from their original epicenters—Latin America in 1825, the United States in 1836, and so on. By taking these conditions into account, the structure of the world market is thereby integrated into the concrete analysis of the crisis.

The manufacturer may actually sell to the exporter, and the exporter, in his turn, to his foreign customer; the importer may sell his raw materials to the manufacturer, and the latter may sell his products to the wholesale merchant, etc. But at some particular imperceptible point the goods lie unsold, or else, again, all producers and middlemen may gradually become overstocked. (Marx 2010 [1894], 303)

From this perspective, the 1825 crisis—the first specifically capitalist crisis, occurring during the so-called infant period of the world market—serves Marx as a benchmark for addressing a question that runs through all his analyses of capitalist crises between 1825 and 1857. This concerns the relationship between the level of development of freight transport, the expansion of the world market, and the mechanisms by which crises spread from their epicenters.

The chief means of reducing the time of circulation is improved communications. The last fifty years have brought about a revolution in this field, comparable only with the industrial revolution of the latter half of the 18th century. On land the macadamized road has been displaced by the railway, on sea the slow and irregular

sailing vessel has been pushed into the background by the rapid and regular steam-boat line, and the entire globe is being girdled by telegraph wires. The Suez Canal has fully opened East Asia and Australia to steamer traffic. The time of circulation of a shipment of commodities to East Asia, at least twelve months in 1847, has now been reduced to almost as many weeks. *The two large centres of the crises of 1825–57, America and India, have been brought from 70 to 90% nearer to the European industrial countries by this revolution in transport, and have thereby lost a good deal of their explosive nature.* (Marx 2010 [1894], 75, emphasis added)

This process is reflected at the level of international monetary circulation between the different national economies. Movements in the balance of international payments trace the sequence of the crisis: “always to each country in succession, as in a volley firing, i.e., as soon as each one’s turn comes for making payments” (2010 [1894], 491). For Marx “the trouble does not actually lie with the balance of payments.” It must be noted “regarding imports and exports that, one after another, all countries become involved in a crisis and that it then become evident that all of them, with few exceptions, have exported and imported too much, so that *they all have an unfavorable balance of payments*” (2010 [1894], 490, original emphasis). Once it breaks out, the crisis

compresses the series of these terms into a very short period. It then becomes evident that all these nations have simultaneously over exported (thus overproduced) and over imported (thus overtraded), that prices were inflated in all of them, and credit stretched too far. And the same breakdown takes place in all of them. (Marx 2010 [1894], 491)

Consequently, the outflow of gold (i.e., world money) is not the cause but rather the expression of the crisis, and “the sequence in which [it hits] the various countries indicates only when their judgment-day has come” (Marx 2010 [1894], 491).

The preceding developments explain why, at the time of the 1847 crisis, Marx considered that the material conditions of global commodity circulation—particularly the replacement of sailing ships by steamships in freight transport—marked the true starting point of the globalization of trade and capitalist production. This is an additional reason to view the 1857 crisis—along with the speculation that preceded it and the material conditions governing the turnover of commercial capital—as a paradigmatic illustration of the financial and commercial mechanisms by which all countries caught in the global market are drawn into the crisis one after the other. This articulation of the commercial and financial mechanisms of crisis transmission, reflected in the movements of the international balance of payments, will be central to Tugan’s analysis of the 1825 crisis.

#### 4. Production and Circulation in Tugan-Baranowski's Theory of Crises

Like Marx, Tugan emphasizes the need to distinguish between the periodic nature of crises and their “individual features.” On the one hand, Tugan situates the 1825 crisis as the starting point of the cyclical fluctuations that characterized the development of English industry throughout the 19th century. The crises of 1825, 1836, and 1847 “were not accidental but are organically and intimately linked to the commercial and industrial evolution of England” (Tugan-Baranowski 1913 [1894], 39). Tugan analyzes the 1825 crisis within the framework of the “infant period of world commerce,” as Marx and Engels described the 1815–1847 interval in the history of the world market. On the other hand, Tugan situates the waning of British industrial expansion around 1875, a turning point that signals “the end of England’s industrial supremacy” (21–22). Thus, his analysis of the 1825 crisis is framed both by his reflections on British cycles between 1825 and 1847<sup>4</sup> and by his observations on the long-term dynamics of British industry.

The history of England’s industrial crises has provided us with a whole set of facts that allow us to see the concrete causes of crises. Every crisis, like every concrete historical event, has individual features, and it has not been too difficult to determine the immediate causes of different crises. But alongside these individual traits, we perceive in the history of crises a great resemblance between all the disturbances of the capitalist economy [...] That is why the history of crises is so monotonous; one is constantly obliged to repeat oneself. But this very monotony is the proof of the regularity of crises. It is evident that they are not caused by fortuitous circumstances of a given historical moment but by more powerful and permanent forces stemming from the very essence of the capitalist economic order. (Tugan-Baranowski 1913 [1894], 186)

But how does Tugan bridge the gap—if at all—that we previously noted in Marx between the analysis of “capital in general” and the concrete analyses of specific crises? In other words, what does he identify as the causes of periodic crises?

We saw that for Marx, crises stem from price revolutions that do not coincide with changes in the value of commodities. This is, moreover, the ultimate reason crises “cannot be studied under the assumption that commodity prices are identical to their value,” an hypothesis underlying the analysis of “capital in general.” Tugan’s solution to the gap problem seems easier since he cultivates an ambivalent relationship with Marxism, later labeled by Bukharin as “theoretical conciliationism” (Bukharin 1967 [1919], 255–57) and by Schumpeter as “semi-Marxism” (1954, 879). For this, one must

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<sup>4</sup> Tooke (1848: 329–348) had already noted the similarity between the crises of 1825 and 1847.



consider both the context of Marxism's development within the Russian intellectual field of the late 19th century and Tugan's own critical reading of *Capital*. The Russian economist belonged to Legal Marxism, a current of thought that, according to E. H. Carr, referred to mid-1890s

a small group of intellectuals who began to expound Marxist doctrines in books and articles cast in such a form as to pass the Russian censorship. The rapid spread of Marxism among Russian intellectuals at that time was due to the expansion of Russian industry and the absence of any bourgeois tradition or bourgeois political philosophy which could play in Russia the role of Western liberalism. (Carr 1969 [1950], 21)

The legal Marxists fully accepted the Marxist point of view on the development of capitalism. Alongside Tugan, this current of thought—with contours “imprecise in relation to the categorization of purely economic theories” (Barnett 2005, 47)—included economists such as Bulgakov, Berdyaev, and above all Pyotr Struve, author of the first platform of the Russian Social Democratic Labour Party (RSDLP) at its founding congress in March 1898 (Carr 1969 [1950], 15–16, 21). But for Tugan, it was not simply a matter of emptying Marxism of its revolutionary content to turn it into a substitute for a bourgeois liberal thought which was underdeveloped in Russia at the time. Beyond these considerations, which responded to the political context and class dynamics specific to the late Tsarist empire, Tugan's ambivalent relationship with Marxism was more profoundly shaped by his critique of the internal consistency of the theses developed in the first three books of *Capital*. Tugan rejected the solution offered in Book III to the problem of the transformation of values into prices of production (Tugan-Baranowski 1915 [1905], 148–54). Close to Wieser, Tugan also rejected Marx's labor theory of value, which he assimilated with that of Rodbertus, just as Böhm-Bawerk had done before him (Böhm-Bawerk 1986 [1884], 429; Tugan-Baranowski 1915 [1905], 158; Boukharine 1967 [1919]:, 257–67). His first article, written in 1890, was in fact an attempt to reconcile the labor theory of value with marginalism (Nove 1970; Allisson 2015, 110).

Yet in *Industrial Crises in England*, there is no trace of marginalism. Its framework consists of a discussion of the theories of accumulation developed by Smith and Ricardo, interpreted in light of what he calls “the Quesnay–Marx method,” namely the reproduction schemes. Tugan defines his “new theory of crises” as “a synthesis of the doctrines of classical economics and the exposition given by Marx in Volume II of *Capital*” (Tugan-Baranowski 1913 [1894], v). Commentators on Tugan's economic work have not pointed out this fundamental theoretical difference between *Industrial Crises in England* and his earlier and later writings on value and prices. However, this

difference is anything but insignificant. Indeed, it would be difficult for Tugan to justify his use of reproduction schemes while rejecting Marx's theory of value. Because the construction and justification of the schemes are based entirely on Marx's discovery of the "dual character" of labor that produces exchange value, i.e., the specific hypothesis that distinguishes his theory of value from all others (both classical and marginalist-neoclassical).

After refuting the two major explanations of crisis then prevailing in Marxist circles—the tendency of the rate of profit to fall and the underconsumption of the masses—Tugan seeks a solution based on the analysis of the reproduction and circulation of the whole social capital outlined by Marx in Volume II of *Capital*. Using the "schemes of expanded reproduction," Tugan maintains that the capitalist crisis is fundamentally a crisis of disproportionality between the two great departments of social production: that which produces the means of production or sector I, and that which produces consumer goods or sector II.<sup>5</sup> In this sense, he is the first author to use the reproduction schemes to elaborate a theory of crises, inaugurating a long controversy within Marxism (Sweezy 1981 [1942], 179; Howard and King 1989, 168–169).<sup>6</sup>

Tugan introduces his theory of crises through a critique of Say's Law (Tugan-Baranowski 1913 [1894], 191). His approach thus belongs to a tradition that dates back at least to Malthus, whom he studied attentively. However, in refuting Say's Law, he also aims to reject both Say and the underconsumptionist theses. The latter were advanced by populist economists who—seeking to demonstrate the impossibility of developing a Western-style industrial economy in Russia—argued that capitalism could not evolve on the basis of a domestic market; according to them, the principal contradiction of this system lay in the gap between production and the insufficient consumption of the masses.

Tugan demonstrates that the overproduction of consumer goods is never due to insufficient demand for those goods. Regardless of the level of demand for consumer goods produced by sector II, if the demand for means of production is sufficiently high, capital accumulation will encounter no obstacle. The error of the populists—and of all underconsumptionist theories—lies in their neglect of the category of constant capital. But to ignore this category is to forgo the full implications of Marx's premise—which Tugan shares—namely, that capitalist production is, above all,

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<sup>5</sup> Tugan distinguishes a third sector—sector III—which produces luxury consumer goods. However, this distinction does not alter the theoretical reasoning in any substantive way.

<sup>6</sup> More generally — beyond the scope of our study — the interest aroused, as well as the influence exerted by Tugan's macroeconomic and bi-sectoral representation, extended well beyond the boundaries of the Marxist tradition. Traces of it can be found in economist such as Robertson, Hayek, Veblen, and Keynes (Barnett 2005, 52–53).

production for profit, not for the satisfaction of human needs. To this end, Tugan revisits the problem of the reproduction of constant capital as it appears in Adam Smith's analysis of the composition of the social product, the contradictions of which Marx had highlighted in Book II of *Capital* (Tugan-Baranowski 1913 [1894], 195). For Tugan, then, the main contradiction within the dynamics of accumulation lies in the absence of a mechanism to ensure proportionality between sectors at the level of total production and social demand.

This disproportionality results from “the anarchy of capitalist production”: the absence of conscious regulation in the exchange of the products of social labor—that is, the absence of a plan.<sup>7</sup> Thus, to say that overproduction is general does not mean that society's productive capacity exceeds its capacity to consume. “The reason for this overproduction [...] is the lack of proportionality between the different branches of production” (1913 [1894], 272). The root cause of the crisis is that this disproportionality is realized through the dynamics of competition. It is therefore necessary to show how the portion of the annual social surplus-value that is reinvested is not allocated in appropriate proportions between the different branches of sectors I and II. And this must be done with the understanding that “the disturbances in the circulation of money and credit are only secondary phenomena, resulting from this lack of proportionality” (1913 [1894], 272). In other words, factors such as speculation, “credit abuse,” the over issuance of banknotes, etc., may “like the last drop that makes the vase overflow, hasten the onset of the industrial crisis, but only if the situation in the money and commodity markets is already such that the crisis is inevitable” (Tugan-Baranowski 1913 [1894], 242; Besomi 2006). But Marx's gap remains: Tugan's analysis of intersectoral disproportionality assumes equality between the value of commodities and their price of production, while his financial analysis begins directly from prices as determined by competition.<sup>8</sup>

The preceding developments help to establish the root cause of periodic crises. But they do not allow for the study of either their concrete manifestations or their “individual features.” Tugan must therefore specify the concrete relations between the sphere of production and that of circulation. After rejecting pseudo-naturalistic explanations of crisis—such as harvest fluctuations and Jevons's sunspots—Tugan

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<sup>7</sup> As Allisson (2015, 82–83) points out, this issue of planning runs through Tugan's thinking.

<sup>8</sup> Barnett indirectly points out this contradiction in Tugan's crisis theory: “Evaluating the account thus far, in one sense there is a contradiction between Tugan's empirical account of the progress of crises and his theoretical explanation(s) of them. The latter involved quasi-Marxist notions such as ‘disproportionality’ and ‘maldistribution’ that were not fully integrated into the empirical description of actual crises, but which did however employ the concept of ‘free loanable capital’” (Barnett 2005, 52).

turns to theories that locate the causes of crises in the conditions of exchange, credit, and monetary circulation, particularly that of Juglar. While he rejects Juglar's explanation of price variations based on demand, Tugan takes seriously Juglar's account of the chain of phenomena through which the crisis unfolds.

If intersectoral disproportionality constitutes the underlying cause of the crisis, then the sudden and widespread drop in prices—following a prolonged general increase—serves as its immediate trigger.

During the prosperity phase, production concentrates on the creation of fixed capital (new factories, infrastructure, etc.). Sector I overheats: “the whole of social industry takes a particular direction: the manufacture of means of production comes to the forefront” (1913 [1894], 271). Once these investments are completed, demand for the elements of fixed capital declines. “But then, the distribution of social production ceases to be proportional.” Moreover, capitalists in Sector I “cannot withdraw their capital from their enterprises, and, on the other hand, the importance of the capital tied up in the form of fixed capital compels them to continue producing” (1913 [1894], 271). The economy thus finds itself in a situation of overproduction of means of production. This situation, which first appears in Sector I, then spreads to the rest of the economy. “As the various industrial branches are dependent on each other, this partial overproduction leads to general overproduction: the prices of goods fall; a period of general stagnation begins” (1913 [1894], 271).

The disruption of intersectoral proportionality thus stems from the uneven development of the branches within sectors I and II. While the anarchy of the market creates the conditions for this imbalance, Tugan identifies speculation as the catalyst that sets the process in motion at the outset of the prosperity phase. Under the grip of speculation:

Social production becomes increasingly disproportionate, because the various branches of production do not always undergo the same expansion. The expansion of production in various industries occurs at that time almost independently of the actual state of demand, solely for speculative purposes and under the influence of stock exchange maneuvers. The industries that experience the greatest expansion are those that offer the best field for speculation. It thus happens that at the end of the ascending phase of the industrial cycle, all proportionality in the distribution of social production is lacking and can only be restored by the destruction of part of the capital of the industrial branches whose expansion has been excessive. (Tugan-Baranowski 1913 [1894], 271)

For Tugan, analyzing this dynamic on the level of the world market does not alter the analysis, but rather makes it even “more complicated.” These complications refer to the requirements imposed by the pace of investments in the main accumulation centers. While part of the capital is reinvested domestically, “another part is directed abroad in the form of loans.” This “emigrated capital is not lost to English industry.” In fact, these loans create demand for domestic products abroad. However, “loanable capital in England is exhausted and ceases to be directed abroad; foreign countries no longer have the means to procure English products” (Tugan-Baranowski 1913 [1894], 274). Let us observe this dynamic with Tugan from the early 1820s onwards.

### 5. Tugan-Baranowski on the Latin American Bubble of 1822–1825

Tugan begins by describing the speculative techniques then popular in the City. This includes what financial jargon calls partial payment or its corollary, buying on margin. The first consists of paying only a portion of the nominal price at the time of subscription. “It sufficed, to receive the securities, to make the first payment, that is, 5 to 10% of the subscribed amount. Thus, one could play the stock market even with modest means” (Tugan-Baranowski 1913 [1894], 42). This technique gained even greater popularity because the dividends and capital gains anticipated by subscribers to shares in companies allegedly exploiting mines in Latin America fueled public enthusiasm.<sup>9</sup> Tugan emphasizes the purely subjective drivers behind the speculative dynamic. He draws on an article by the banker John Mills (2024 [1868]), the author of a “very subtle and remarkable exposé” on the psychological dimension of the cycle.

Prosperity leads the speculator to cross the line that separates reasonable initiative from reckless boldness, which shrinks from no risk, no danger. One must not forget that speculation considers only the expected price difference and is indifferent to the absolute level of prices. The speculator may be convinced that a price collapse will inevitably occur in the more or less near future. That does not concern him; the only thing that interests him is to know how high the price of a security or commodity will be tomorrow, in eight days, in a month. When high prices are established in the market, the speculator can boldly bet on the rise, even if everyone acknowledges that the fall is inevitable, hoping to make his profits before the reaction occurs. (Tugan-Baranowski 1913 [1894], 269–70)

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<sup>9</sup> As historians point out, those promises of benefits were exaggerated or unfounded. For an account of the adventures and fraudulent issuance of government bonds, including those of a fictitious state (the “Kingdom of Poyais”), see Dawson (1990) and Marichal (1988).

However, the bubble of 1822–1825 cannot be explained solely by legislative leniency regarding speculative practices or by the delusional expectations of stock market investors. These factors are more deeply rooted in the dynamics of capital reproduction. “If this speculation epidemic spread, *it was only because many idle capitals had accumulated in England, which could not find profitable placements in the domestic market*” (Tugan-Baranowski 1913 [1894], 40–43, emphasis added). To understand the speculative fever of 1822–1825, one must therefore begin with the situation of capital surplus that followed the 1819 crisis:

England did not know where to place its capital, which flowed into banks and clogged the money market. It is not surprising, then, that English capital rushed toward the new outlets opened to it, with the force of water surging through a breach in a dam [...] If this speculation epidemic spread, it was only because many idle capitals had accumulated in England, which could not find profitable placements in the domestic market. (Tugan-Baranowski 1913 [1894], 40–43)

Speculation thus appears to be a symptom and catalyst, rather than the cause, of underlying overproduction. Additionally, like Tooke and Marx before him, Tugan examines the specific financial conditions underlying this speculation. Like them, he traces it to the decline in the yields on British government bonds. “As Palmer, director of the Bank of England, said, the starting point and cause of the speculation on foreign securities was the conversion carried out by the British government between 1820 and 1825” (Tugan-Baranowski 1913 [1894], 43). Tugan deepens the analysis by comparing the returns on British bonds with those of the new Latin American States issued in the City:

The capitalist could find a high enough return only by placing his funds abroad. Moreover, the South American States offered the most enticing conditions: the loans were issued at 7 or 8%, or even more, while the price of British 3% consols<sup>10</sup> was above par. No doubt the American States offered these conditions without any intention of keeping their promises, but English capitalists were willing to consider American loans as very serious, since the loans made by European states on the London Stock Exchange in 1818 had turned out to be safe and advantageous investments. (Tugan-Baranowski 1913 [1894], 43)

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<sup>10</sup> Tugan is referring here to consolidated annuities, or consols—that is, perpetual bonds issued by the British government.



Conversely, Tugan examines the effects of speculation on production. He contrasts the relatively slow rise in industrial goods prices with “the rise in securities, often entirely fictitious.” While this trend is visible in the domestic market, it is above all in exports to Latin America that Tugan observes speculation’s impact. He notes that nearly all the growth in British exports—particularly cotton fabrics—between 1821 and 1825 was directed toward Latin America, where exports more than doubled during this period.

Driven by this momentum, English factories saw their raw material stocks decline from late 1824. As a result, speculation spread to key imported commodities—cotton foremost among them. The frenzy intensified as traders boosted imports solely to accumulate stocks “with the intention of driving prices even higher. And for a time, they succeeded perfectly” (1913 [1894], 46). Drawing on price series provided by Tooke, Tugan calculates the rate of the dizzying increase in imported goods prices between December 1824 and June 1825, compared to the period from July to November 1824.

Tugan then wonders about the origin of the means of payment for this British export boom: “But where did the South American countries get the means to buy in 1825 twice as many goods as in 1821?” he asks. “These means were provided to them by the English themselves. The loans made on the London Stock Exchange were used to pay for the imported goods” (Tugan-Baranowski 1913 [1894], 45). This observation is essential for understanding the connection between phenomena in the sphere of circulation—both financial and commercial speculation—and those in the sphere of production that would contribute to the outbreak of the crisis by late summer. This chain of events first becomes evident in the relationship between the exchange rate and fluctuations in the Bank of England’s metallic reserves. Until September, gold inflows and outflows merely replicated the balance of British foreign trade. This illustrates a classic case of dependency: when the exchange rate falls, gold flows out, and vice versa. However, a reversal occurred “in the last months of 1825.” Between September and December, Tugan observes no further correlation between the movements of the Bank’s reserves and those of the exchange rate. What happened?

## **6. The Stages in the Development of the 1825 crisis**

The chain of events that precipitated the 1825 crisis began in the sphere of circulation and eventually reached the sphere of production. The process unfolded in three stages: first, a reversal in commercial speculation spread to financial markets; next, the entire credit system was shaken; and finally, the crisis extended from finance to the industrial sector. Let us begin with the first stage—the transmission channel from commerce to finance. The sharp rise in raw material prices in 1824 stimulated a significant increase in the supply of foreign goods in London. From 1825 onward, there was a halt in the rise of prices, then a fall:

This decline was absolutely inevitable, as demand for goods in England could not grow in proportion to the ever-increasing supply: English factories could not expand production because foreign markets were already saturated with English goods. For the same reason, the consumption of colonial goods could not rise either, since it is the level of production that determines the nation's wealth and the income of all social classes. Therefore, after rising excessively, commodity prices were bound to fall sooner or later—which is precisely what occurred in the first half of 1825, and even more markedly in the second half of the following year. (Tugan-Baranowski 1913 [1894], 51)

Naturally, this fall in prices ruined “speculators who had bought [foreign] goods in the hope of reselling them at a profit.” This first phase of the crisis—its outbreak in the sphere of wholesale trade, specifically among import-export houses—is reflected in the international balance of payments. Here we observe the very process Marx identified regarding the behavior of balances of payments during crises: they all become unfavorable, and their settlement follows in succession—abrupt inflows and outflows of international currency across national economies tracing the geographic spread of the crisis. Thus, if until September 1825, England experienced a “gold hemorrhage,” it is because it had “over imported.” But at the same time, “all other countries [starting with the Latin Americans] are oversupplied with English goods. They have thus also imported too much, or have been made to import too much” (Marx 2010 [1894], 490).

Logically, and through a snowball effect, the collapse in wholesale import-export trade spreads to the City, where holders of foreign securities realize that “all speculations on South American securities were without any serious foundation” (Tugan-Baranowski 1913 [1894], 52). This marks the beginning of the second phase, characterized by the ruin of speculators and, consequently, the destabilization of the credit system.<sup>11</sup> In contrast to the commerce-finance link, the transmission from finance to production is not immediate. Tugan estimates that “a delay of 2 to 3 months or more is required before the bankruptcy of an industrial firm is revealed, that is, until the moment it is obliged to meet its commitments”. This sequence in the development of the crisis explains why the banking sector experienced a wave of bankruptcies before the crisis reached the industrial sector. It also clarifies why the banks—more specifically, their excessive issuance of banknotes—were blamed for causing the crisis. Although Tugan acknowledges that “great abuses occurred in the issuance of

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<sup>11</sup> Turner estimates the bankruptcy rate at over 18%, which is remarkably high in the history of financial crises in Great Britain. The same author illustrates the importance of the Bank's intervention, particularly from December onwards, when private securities began to swell its balance sheet (Turner 2014, 54, 145).

banknotes,” he insists that the crisis was above all “inevitable” (1913 [1894], 54). Tugan examines this banking phase of the crisis in detail, drawing in particular on testimonies from bankers given before a parliamentary inquiry commission in 1833. He reviews the reasons behind the intense pressure on the banks: the obligation imposed on provincial banks since 1822 to redeem small-denomination notes (of £1) in specie helps explain the enigma of the continued hemorrhaging of the Bank of England’s reserves between September and December 1825, despite the recovery of the exchange rate. Gold was not fleeing abroad from Threadneedle Street—it was flowing into the countryside!

Although, like Marx, he is convinced that monetary policy cannot prevent a crisis—but could aggravate it—Tugan nonetheless praises the “bold [and] successful” intervention of the Bank of England as Lender of Last Resort. After initially refusing to support provincial banks—supposedly to preserve its reserves—and thereby worsening the crisis, the Bank decided in December to expand its credit and discount facilities to include “sound bills that private banks refused” (1913 [1894], 56–57). Through this Lender of Last Resort intervention, *avant la lettre*, Tugan observes how the 1825 crisis accelerated the slow and uneven centralization of the banking system around the Bank of England, that “reservoir in which the metallic reserves of [the entire country] are gathered and which is the foundation upon which all [national] credit rests” (Tugan-Baranowski 1913 [1894], 50).

It is only in 1826 that the third phase begins: the crisis spreads to the sphere of production in the wake of banking failures. This final stage reveals a close interaction between the spheres of circulation and production.

As the closest relationships exist between the various elements of the modern economic order, the bankruptcies of banks, which continued throughout the first half of 1826, were followed by the bankruptcies of their clients, merchants and manufacturers; and conversely, the bankruptcies of the latter were, in turn, very often the cause which compelled the banks to suspend their payments. The entire year 1826 was taken up by the liquidation of the businesses from the previous year. (Tugan-Baranowski 1913 [1894], 58)

The stagnation of business and the difficulty of finding “profitable investments” for existing capital would persist for the next three or four years. Yet for Tugan—a theoretician who, moreover, mocks naturalistic explanations of economic and social phenomena—“every crisis bears within itself the conditions of its own cure,” and “from a certain point of view, the 1825 crisis even had a beneficial effect on English industry” (1913 [1894], 59–60).

## Conclusion

For both Marx and Tugan, the 1825 crisis—as far as it does not result from exceptional circumstances—expresses “the very essence of the modern economic order” and thereby inaugurates the cyclical dynamic of industrial capitalism. However, Marx’s analysis of crises contains a theoretical hiatus that has fueled recurring controversies at each outbreak of crisis, at least since the publication of volumes II and III of *Capital*. This article focuses on the relationship between Marx’s observations on the 1825 crisis and the analysis developed by Tugan. It demonstrates how Tugan draws on Marx’s hypotheses, which he extends and develops in his interpretation of the 1825 crisis. These hypotheses concern the links between overproduction and financial speculation, as well as the conditions of commercial capital turnover as mechanisms for the international spread of crises.

For Marx, the analysis of crises must be located at the level of real competition, which unfolds on the world market. From this perspective, the 1825 crisis occurred during the “childhood” of the modern world market. On this basis, we have seen how Marx’s reflections on the 1825 crisis highlight the causal link between speculation and overproduction, as well as the role of commercial capital turnover in transmitting the crisis—with movements in the international balance of payments merely mirroring the order and speed at which the crisis spread. In his magnum opus, whose definitive title in the last Russian edition in 1914 would be *Periodic Industrial Crises: A History of English Crises and a General Theory of Crises*, Tugan proposes an interpretation of the 1825 crisis by articulating his general theory of crises—based on Marx’s reproduction schemes—with an analysis of financial and commercial speculation as autonomous moments of the capitalist cycle. He highlights the concrete mechanisms of the speculative fever over Latin American securities between 1822 and 1825, as well as the mechanisms and stages of the crisis’s outbreak. His analysis of the 1825 crisis constitutes an exemplary case study, illustrating a decisive theoretical contribution to the study—within a Marxist perspective—of the dialectical relationship between the sphere of production and that of circulation. Finally, in developing his general theory of crisis based on the reproduction schemes, Tugan bases it entirely on the main hypothesis of Marx’s theory of value: the dual nature of labor that produces exchange value. He thus departs from the “conciliatory” hypotheses he tries out in other works.

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The author has no competing interests to declare.

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