

**FREDERICK ALLEN AND THE FUTURE OF
CAPITALISM**

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Introduction

In March 1938 Victor Gollancz's Left Book Club published, as an 'Additional Book', a 286-page volume with the title *Can Capitalism Last?* by one Frederick Allen. Evidently this was the pseudonym of Denis Herbert Stott (1909-1988), a grammar school language teacher who had a Cambridge economics degree but no other credentials as an academic economist. He subsequently became a professor of psychology, specialising in child development.¹ The book is of interest as a very early attempt to marry Marx to Keynes. Well-written, cogently argued and politically committed, it has many of the strengths, and all of the weaknesses, of the much later and more celebrated *Monopoly Capital* by Paul Baran and Paul Sweezy (1966).

With his Cambridge training Allen was not quite an amateur economist, but he was pretty close to it. He seems to have written the book in isolation both from mainstream economists and from Marxian theorists.² At the level of high theory, Michal Kalecki and (under Kalecki's tutelage) Joan Robinson would soon bring Marx and Keynes together much more successfully than Allen, while Baran and Sweezy, a full quarter-century later, would produce a more popular account that achieved the status of a best-seller. Allen, however, writing in 1937, was on his own. He wanted to provoke a dialogue between Keynesians and Marxists. How was he to proceed?

¹ Denis Herbert Stott was born in London, and studied modern languages and economics at Cambridge, where he joined the Communist Party. In 1932 he moved to the Medway Towns, in Kent, where he taught modern languages at Rochester Mathematical School and became secretary of the local Party branch. In addition to writing *Can Capitalism Last?* he found time to study psychology, later becoming a distinguished child psychologist (personal communication from Dr. David Turner, 23 January 2002). For the status of the Left Book Club's 'Alternative Books', and a full list of the Club's publications, see Lewis (1970, pp. 29-30, 139-56).

² Maurice Dobb's review, belatedly published in *Labour Monthly* in September 1939, is rather cool and certainly does not suggest that he had been in personal contact with Allen (Dobb 1939). David Turner believes that Allen may have discussed Keynesian economics with Hugh Gaitskell and Evan Durbin, both

The rudiments of Keynes's macroeconomics can be set out in two quite different ways.³ The first is the aggregate supply-aggregate demand analysis that he himself used in the *General Theory*, in aggregate proceeds-total employment space. This was ignored by almost everyone until first Sidney Weintraub and then Paul Davidson rediscovered it in the late 1950s. Even among Post Keynesians, it remains very much a minority taste (King 1994). The second is the income-expenditure model, derived from the notion of a circular flow of income and therefore sometimes derided as 'hydraulic Keynesianism' (Coddington 1976). This was originally developed by Kalecki (1939) and subsequently canonised by Paul Samuelson with the famous 'Keynesian cross' diagram in the first (1947) edition of his *Economics*. It is the basis of both the neoclassical aggregate supply-aggregate demand model, in price level-real output space, and the more recent aggregate demand-inflation adjustment approach originating with John Taylor.

Allen was certainly familiar with Keynes's aggregate supply-aggregate demand analysis, which he would have read in the *General Theory*. He could not have encountered the income-expenditure model, which was not available in print in 1937. Yet it was the latter, not the former, upon which his entire book is constructed; there is no trace of Keynes's version in *Can Capitalism Last?* Perhaps, like many other readers, he found it difficult to understand; he would in any case have been repelled by its Marshallian foundations. Whatever the reason, Allen found it necessary to build his own income-expenditure model of Keynes, starting from scratch.

of whom stood as Labour candidates in the Medway Towns in the November 1935 general election (personal communication, 23 January 2002).

³ The IS-LM model was far from rudimentary, at least in the late 1930s, and placed far more emphasis on the role of interest rate changes than Marxists – or many Keynesians – considered appropriate.

The Argument

Allen's intended readership, as he explains in his 'Introductory' chapter, is 'the non-expert' as well as the professional economist (p. 22). He makes no claim to originality: 'There is probably no single idea in this work which has not already been stated by someone else. Certainly Karl Marx understood and described the main processes herein studied' (p. 22). His aim is to present 'a theoretical outline of that dilemma of purchasing power or "distribution" which has come to dominate the economic activity and hence every aspect of the civilisation of the capitalist world' (p. 21).

Allen begins by citing Friedrich Engels: 'The limits of production are determined not by the number of hungry bellies, but by the number of *purses* able to buy and to pay' (p. 25).⁴ Thus his argument begins with the concept of purchasing power, which, as he explains, 'is not synonymous with the volume of purchases', though the two terms are often confused: 'The idea behind purchasing power is the control over commodities given to people by reason of their incomes. It is obvious that, in general, commodities can only be taken off the hands of producers if people buy them, and they can only buy them if they have the incomes to provide the purchase money' (p. 33). He is groping here for some way of expressing the notion of the circular flow of income and expenditure:

The actual purchases which people make out of their incomes constitutes the bulk of the volume of purchases. Except by such extraneous factors as the creation of bank credits, which can be left out of account for the moment, the volume of purchases cannot exceed the bulk of purchasing power from which it springs. On the other hand, the volume of purchases can be less than the originating mass of

purchasing power if on balance people are withholding part of their incomes. Thus we have two variables. It will be necessary to examine, firstly, how the volume of purchasing power changes, and, secondly, how much of this purchasing power comes to fruition in a volume of purchases and constitutes a market' (p. 34).

This is, in effect, an injections-and-leakages model, though Allen's imagery is at first agricultural rather than hydraulic:

What, then, fixes the aggregate of purchasing power from which the volume of purchases springs? Paradoxically enough, its chief source is the volume of purchases. We are faced with the old conundrum of the egg and the hen...Purchasing power, and the volume of purchases, generate each other in never-ending cycles. The volume of purchases of one phase becomes the purchasing power of the ensuing phase. Out of the purchasing power thus generated the volume of purchases of the succeeding cycle is born. (p. 35)

The relationship between saving and investment is crucial. 'While the act of saving in itself', Allen argues, 'the mere failure to spend, completely cancels the purchasing power, the resulting investment may be of a type which, by placing purchasing power in the hands of people who would not otherwise obtain it, exerts a compensating expansive effect on the market' (p. 45). But the market is exposed to 'a net shrinkage' (p. 48), with a 'damming-up of purchasing power' (p. 49), if savings are used not to buy new

⁴ Engels to F. Lange, 29 March 1865, in Marx and Engels (1965, p. 173).

productive equipment but are instead deposited in a bank or used to buy financial securities. In this case, ‘purchasing power is withdrawn from its function of buying commodities, and is neutralised, exterminated’ (p. 53).

Allen denies Major Douglas’s assertion that purchasing power is necessarily and always deficient. On the contrary, ‘all the parties in the productive process (including the capitalist) have a sum of money *accruing* to them equal to the market value of the output’. If it were all spent, ‘there would be sufficient purchasing power to cover the whole of the output, and there would be no shrinkage of the market’ (p. 55; original stress). But it need not be spent. ‘It looks very much as if the banking system can be a well in which purchasing power can be for ever sunk’ (p. 55), with serious consequences for output and employment. By this stage, Allen’s metaphors are distinctly watery.

His argument is not always as clear as it might have been, and the structure of the exposition is awkward and repetitive. Some of his neologisms are clumsy and confusing – the ‘coefficient of efficiency of purchasing power’ (p. 44), for example, or ‘income-money’ (p. 49); the former is Keynes’s (average) propensity to consume, while the latter simply means ‘income’. Allen’s treatment of the multiplier (chapter 5), in terms of the ‘repercussions’ of changes in expenditure, leaves a lot to be desired, and indeed the entire discussion is often wordy and in places convoluted. As an advocate of Keynes and Marx, Allen is no Joan Robinson, largely lacking her clarity and concision. Interestingly, he cites neither Robinson’s *Introduction to the Theory of Employment* (Robinson 1937) nor James Meade’s *Introduction to Economic Analysis and Policy* (Meade 1936), and gives no indication of having read either of these early popularisations of Keynes.

It is always dangerous to infer an author's reading list from his footnotes, but in Allen's case it is plausible that his sources are fully reflected in his citations. He refers to Keynes's *Treatise on Money* (pp. 126, 203-4), *Essays in Persuasion* (pp. 13, 21n) and, of course, to the *General Theory* (about a dozen references, scattered throughout the book). He also makes many references to Marx, and a few to Engels. In addition Allen cites books by J. A. Hobson (*Imperialism: A Study*); H. M. Hyndman (*Commercial Crises of the Nineteenth Century*); the League of Nations (*Course and Phases of the World Economic Depression*); Walter Layton (*Introduction to the Study of Prices*); Lilian Knowles (*The Economic Development of the Overseas Empire*); Alfred Marshall (there are several references to the *Principles*); A. C. Pigou (*Economics of Welfare*); the 1885 Royal Commission on the Depression of Trade; Adam Smith's *Wealth of Nations*; and John Strachey (*Nature of Capitalist Crisis*). Allen also cites, without providing details, speeches and writings by William Beveridge, Eugen von Böhm-Bawerk, Maurice Dobb, C. H. Douglas, Ralph Hawtrey, Fred Henderson, V. I. Lenin, Wesley Mitchell, Denis Robertson and Josiah Stamp. A few cherished books, supplemented by *The Times* and the *Economist* (from which he quotes repeatedly): that is exactly what one would expect to be the reading-matter of a busy, poorly-paid schoolteacher living forty miles from the nearest academic library.

For all the defects in his exposition, Allen has, by the end of chapter 1, established the crucial link between Keynes and Marx. Deficient aggregate demand is the fundamental economic contradiction of the capitalist system: 'The market must be the starting point of any study of the stagnation of world production, the causes of world poverty, and the periodic crises of overproduction and unemployment' (p. 27). Later in

the book he presents the argument in terms of surplus absorption, and waste. In principle, Allen concedes, ‘there is no need...for savings to be absorbed by personal consumption. It would do equally well to produce anything of an unproductive nature, rather than invest in productive resources. No matter where the waste, so long as it is wasted expensively’, for example by implementing Keynes’s ‘ironic suggestions’ for pyramid-building and the like (p. 233). Wars and peacetime armaments expenditures also have ‘a very considerable mitigating effect’, and ‘one other alleviating factor must be noted’, which is the rapidly increasing spending on sales organisation and marketing: ‘more money is being spent each year on all forms of such socially wasteful expenditure’ (p. 234). Allen concludes that the central problem facing the capitalist class is that ‘it can find no outlet for its surplus’ (p. 163). The *Economist* had found a solution, in the form of an imaginary war in the course of which arms were dumped surreptitiously in the North Sea, thereby providing ‘a perfect illustration of the previous conclusion, that if only enough values are wasted, i.e. put to unproductive uses, the market problem is solved’ (p. 274).

Irony aside, the future of the system hinges on the prospects for the four components of aggregate expenditure:

In the following chapters will be examined the constituent parts of the market in order to discover exactly why it is subject to the manifest limitations, and whether these limitations are capable of removal. The constituent parts of the market can be catalogued as follows:

1. That part of personal incomes which is spent on individual consumption...personal incomes must be sub-divided into the following qualitatively different classes: *employers'* incomes (profits, dividends), *employees'* incomes (salaries, wages) and *institutional* incomes (rents, royalties, interest on State bonds, unemployment allowances, pensions, etc.)
2. Purchases of finished goods for use in production, whether bought by individuals (out of incomes, or with borrowed money), by joint-stock companies, or governments.
3. Sales of commodities outside the economy under consideration, i.e. to foreign lands and to colonial (backward) territories.
4. Purchases by public bodies (the State, local authorities) of finished goods, i.e. equipment not intended for further use in production, such as roads, war materials.

These constituent parts of the market will be examined in turn in later chapters.

(pp. 40-2; original stress)

This is not quite an accurate guide to the remaining 14 chapters of the book, which is less systematically structured than this passage may imply; but it does indicate the central themes.

Consumption

Allen begins by defining the 'coefficient of efficiency of purchasing power' (p. 44), which he writes as E : this, as we have seen, is Keynes's (average) propensity to consume.

‘It is evident that if E is 100% in all cases, no problem of overproduction could exist...Everybody’s incomes, including profits, being spent, would revert to the employers and enable them both to cover their previous outlay, and enable them to pay out these incomes on the same scale again’ (pp. 58-9). Very much more than Keynes, Allen emphasises the role of income distribution in ensuring both that E is less than unity and that it tends to decrease over time. Above all, real wages rise less rapidly than the productivity of labour, which is constantly growing because of technical progress. Keynes’s neglect of this critical dynamic problem, Allen argues, is a fundamental weakness (pp. 20-1).⁵ Thus working-class demand cannot keep pace with growing output, while the rich have so much more than they need that they cannot increase their consumption expenditure sufficiently to fill the gap. He cites Wesley Mitchell’s finding that employees in the United States save only 5% of their wages and salaries, while business men are responsible for two-thirds of all saving. ‘It is out of the question for them to spend the whole of their income on consumption...much of the national income is concentrated in the hands of men so wealthy that they would find it extremely difficult to get rid of their incomes on personal consumption, even should they so wish’ (p. 61). There are echoes of J. A. Hobson here, as already noted, and Allen does cite Hobson’s *Imperialism* in one place (p. 235).⁶

In the USSR there is no problem of over-production, since there are no capitalists and wages are continually increased in line with labour productivity:

⁵ An identical objection formed the basis of Joseph Schumpeter’s (1936) hostile review of the *General Theory* in the *Journal of the American Statistical Association*; there is no evidence that Allen was aware of this review.

⁶ But only to criticise Hobson’s claim that imperialism had failed to provide substantial overseas markets, and had therefore been unprofitable paid ‘from a business point of view. On the contrary, Allen maintained, ‘the imperialistic creation of markets gave a new lease of life to British capitalism’ before 1914 (pp. 238-9).

This very idea, the High Wages theory, was in fact very fashionable in certain Socialist circles in Britain a few years ago, and it must be admitted, if only it could be operated, the market problem would disappear completely. Of its general impracticability, in an otherwise individualistic, profit-making society, there is now no question. (p. 64)

This is so because competition – especially international competition – makes any agreement to raise wages impossible.

There are precedents for many of Allen's arguments, if not for the precise terms in which he expresses them. Two generations of Marxists had highlighted the rising rate of exploitation as the fundamental cause of underconsumption. They had also maintained that the problem was being made very much worse by the growth of monopoly, which further increased profits at the expense of wages. In Allen's words, 'there has been a transference of purchasing power from employees, with a high E, to accumulators, with a low E' (p. 188). This was made possible by the creation of an 'industrial reserve army' of the unemployed (p. 68), constantly replenished by labour-saving technical changes. The outcome was 'the failure of the consumption of the wage and salary earning masses to expand significantly even in the "prosperity" periods' (p. 73). All this was commonplace in the literature of both the Second and Third Internationals (Howard and King 1989, 1992). Thus there is nothing new in this part of Allen's analysis.

Investment

His treatment of investment expenditure is, however, rather more distinctive. Allen takes issue with the argument, first advanced by Mikhail Tugan-Baranovsky in 1894, that investment might increase without limit, quite independently of the growth of consumption⁷. He admits that ‘it may be asked....exactly why capitalism should not be run in complete defiance of consumers’ demand. Why should not industries be run to supply and repair machinery....in such a way that industry is kept busy because capitalists are creating a never-ending demand for capital goods without concerning themselves with the ultimate product which the mass of machinery is destined to produce?’ (p. 37n). This, Allen insists, is ‘plainly impossible’ (p. 38n), since ‘all production is for the ultimate purpose of consumption. One cannot continue for ever artificially to stimulate the market by the manufacture of capital goods if the volume of consumers’ purchases is deficient. In other words, it is of no use continually to build factories and machines in order to build factories and machines *ad infinitum*’ (p. 37). On the contrary: the opportunities for profitable investment are restricted by the slow growth of consumption, since investment is motivated by expectations of profitability. ‘What, after all, is the point of incurring the risk of an investment without the profit to make it worth while?’ But, ‘with profitability, we are back again at the market. He who does not sell, neither shall he make a profit ‘ (p. 62).

And there is a further problem. Investment adds to the productive capacity of the economy at the same time that it adds to effective demand. If productivity rises by 2% per year, while real wages remain constant, purchasing power will shrink unless

⁷ Allen does not refer to Tugan, but he had almost certainly encountered his well-known critique of underconsumption theories, if only at second hand (on Tugan see Howard and King 1989, chapter 9).

investment is constantly increasing as a proportion of total output.: ‘so long as consuming power cannot increase, and labour productivity rises, the volume of investment must grow in proportion to the net saving of labour in order that employment may be maintained and a market shrinkage averted; and the rate of growth must be in geometrical progression so long as the productivity of investment remains constant’ (p. 129). This is not entirely clear, but Allen’s argument seems to have something in common with an often-quoted statement by Michal Kalecki, for whom ‘The tragedy of investment is that it causes crisis because it is useful. Doubtless many people will consider this theory paradoxical. But it is not the theory which is paradoxical, but its subject – the capitalist economy’ (Kalecki 1939 [1990], p. 318). This is, I think, the point that Allen is trying to make.

There are some well-known difficulties with any underconsumption theory, and they apply equally to Allen’s version. Three are of particular relevance to *Can Capitalism Last?* First, why is it that real wages do not keep pace with labour productivity? Why must the wage and salary share in total output constantly decline? Baran and Sweezy have been heavily criticised for their failure to answer this question, and for the absence from *Monopoly Capital* of any detailed treatment of the labour process, the labour market, trade unions and wage determination (Howard and King 1992, chapter 6). A proposed chapter on these issues was apparently never completed, due to fundamental disagreements between the authors. Allen’s treatment is also unsatisfactory. He first endorses Marx’s claim that ‘wages tend towards a level just high enough and no more to enable the worker to maintain his existence and to reproduce his own kind’ (p. 66), but then supports Maurice Dobb’s contention that the income shares of labour and capital

‘were not precisely fixed by the market conditions, but that the relationship was more like a barter transaction, in which commodities could be exchanged according to the bargaining or bluffing faculties of either side’ (p. 67).⁸ In practice wages are set by collective bargaining, and ‘subsistence’ is socially, not biologically, defined (pp. 68-70). Then Allen cites the research of British nutritionists to show that working-class living standards are still perilously low. ‘Perhaps’, he concludes, ‘Marx’s “natural law” of capitalism is not so wide of the mark in the twentieth century after all!’ (p. 72). None of this establishes a long-run tendency for the share of profits to rise and the share of wages to fall. And Allen admits as much at the end of chapter 3, where he settles for the more modest claim that ‘wages will not conveniently and automatically rise in order to take the surplus of goods off the market’ (p. 72).

A second problem for underconsumptionists concerns the specification of the investment function. Some variant of the accelerator principle is required for any underconsumption model to yield the desired result of a chronic and growing deficiency in effective demand, but the relationship between investment expenditure and the rate of growth of consumption is rarely specified precisely in the literature.⁹ Nor is it ever made clear exactly how the mechanistic notion of the accelerator is connected to capitalists’ perceptions of the future profitability of current investment projects, which in the final analysis constitute the only determinant of the investment expenditure. As eminent a theorist as Michal Kalecki worked and reworked his analysis of investment, without ever being happy with the outcome (Steindl 1981). Allen, who firmly denies the value of any

⁸ Allen is presumably referring here to Dobb’s popular book on *Wages*, published by Keynes in his Cambridge Economic Handbooks series (Dobb 1927).

⁹ Georgescu-Roegen (1960) stresses this problem in his attack on Sweezy’s first (1942) underconsumption model.

form of mathematical modelling in economics (pp. 97, 101), does not even recognise the difficulty.

Finally, there is a problem that Allen does acknowledge, concerning the strength of the inducement to invest in *monopoly* capitalism. Under competitive conditions, a high rate of accumulation is imposed upon individual capitalists as a condition of their survival; failure to invest would result in the destruction of their businesses by their rivals. In monopoly there is no such compulsion. Why, then, does not investment fall, dragging down both the rate at which new techniques are introduced and the decline in the wage and salary share in net output? Baran and Sweezy are unable to counter this objection effectively. They maintain both that investment is lower in monopoly, and that monopoly slows the rate at which innovations are introduced. They conclude that investment cannot 'make a significant contribution to solving the problem of surplus absorption' (Baran and Sweezy 1966, p. 110), but fail to explain how this can be reconciled with their 'law of rising surplus,' which is supposedly especially applicable to monopoly capital. Allen, too, is unconvincing on this point. He identifies two differences between competitive and monopoly capitalism: the will to invest is lower under monopoly, but more is spent on industrial research, so that labour productivity will nevertheless rise more rapidly:

We may expect, then, a smaller amount of investment than under competitive conditions, but what investment there was, would be of a more disturbing character. Each investment would introduce a greater technical change, and consequently induce a more drastic rise in productivity. Investment distributes

purchasing power; but monopoly invests less. The greater the rise in productivity the more pressing the market difficulty: monopoly accentuates the productivity per unit of investment. The disturbing factor is greater, the alleviating factor weaker under monopoly capitalism. (p. 195)

This cries out for formal modelling, which Allen was both unable and unwilling to provide. But it would be wrong to judge him too harshly. Better economists than he have admitted defeat, or simply waved their hands, in the face of these difficulties.

Fiscal and Monetary Policy

If the contradictions of capitalism cannot be resolved by private expenditure on consumption and investment, undertaken in a hypothetical closed economy, that leaves government spending and imperialism. Allen devotes chapter 4 to an examination of the effects of increased state expenditure. He first considers the case in which 'the State confines itself to the expenditure of current revenue', increasing taxation by the same amount as any increase in spending. It would be too much to expect Allen to discover the balanced budget multiplier theorem - first published in English in 1944 or 1945, according to Peston (1987) - but he is clearly thinking along similar lines. The effect will depend, he argues, on the propensity to consume of those who pay the increased taxes:

If investment offers such poor prospects that practically all accumulated savings are hoarded, such as probably happened in 1931 and 1932, the tax would considerably increase the volume of purchases.....But it may well be that either

the E of accumulated savings equals 100% or that accumulators save and hoard a similar amount despite the increased taxation, that is, they cut down their consumption to pay the tax. In this case the tax will fail to enlarge the market. (pp. 76-7)

Allen's 'general conclusion' is that very little can be expected from increased government spending in the context of a balanced budget.

He next discusses the 'heresy of public finance, influentially supported by the Keynes school' (p. 77), which favours deficit spending:

The State is exhorted to borrow money, and 'pump it into circulation' by extensive public works schemes. Now it is incontestable that if a public authority makes money payments to employees on a large scale, without depriving any other potential consumer of these funds by taxation, the result is a net expansion of purchasing power and consequently of the volume of purchases. And if the operation is large enough, and prolonged enough, the problem of markets would be overcome. (p. 77)

The Roosevelt administration had made use of deficit financing on a very large scale, while the British government had rejected it. 'Who was right', Allen asks, 'Roosevelt or Baldwin? Both, in their way' (p. 78). The US government entered the Great Depression with only a tiny national debt, while in the UK interest payments on the debt already accounted for one-quarter of the budget:

It did not need much calculation to show that deficit financing during time of peace would soon bring this country into a totally unmanageable budgetary situation. For example, if £500, 000, 000 had been borrowed at 3% during each of the four worst years of the crisis, this would have saddled us with an interest payment of £60, 000, 000 a year until such time as we were in a position to pay it off. (p. 79)

Nazi Germany was already encountering a very similar problem (pp. 275-8). Allen correctly suggests that any government reducing its debt by running budget surpluses in times of prosperity would thereby also 'shrink its purchasing power' (p. 81).¹⁰ But he is unable to explain why the national debt should ever *have* to be repaid.

Allen is equally pessimistic about the prospects for monetary policy. Why, he asks, should a budget deficit not be financed by monetary expansion?

What is there to prevent the State from taking over the monopoly of the issue of those claims to commodities which take the form of bank credits? Instead of paying the large banks a rate of interest on Treasury Bonds, etc., which have been financed in the first place by credit creation, the State would issue credit, and indirectly, purchasing power, without charging itself any rate of interest. (p. 83)

This proposal, Allen concedes, is

...technically sound, and morally attractive. One could exercise the imagination in extending the principle. Why, for instance, pay interest on the National Debt, when one can re-fund the whole of it at no more cost than that of book entries? The State could assume a monopoly of credit creation, and lend at interest as do now Joint Stock banks. It is doubtful if there would be any need for taxation. (pp. 83-4)

Alas, it is all too good to be true. It would amount to doing away with interest altogether:

But the lending of money at a rate of interest, whether this money is created, or otherwise obtained, is the preserve of the owners of capital. The right to charge a rate of interest is the most important device of the mechanism by which this class obtains and accumulates its wealth. Abolish this device, and the capitalist system is as good as abolished, which brings us outside the scope of this book. It is here a question of analysing the market problem within capitalism, not outside it. (p. 84)

Thus deficit finance is at best a palliative, 'a hand-to-mouth opportunist measure' (p. 85), which offers no permanent solution to the problem of purchasing power.

The abolition of interest was more than Keynes had ever anticipated, even when he looked forward approvingly to the 'euthanasia of the rentier' (Keynes 1936, p. 376). It is not obvious that this would be entailed by Allen's proposal, since a state monopoly

¹⁰ There were, of course, circumstances in which this was exactly what was required. See, for example, Abba Lerner's (1943) statement of the principle of 'functional finance', a principle that had been

banking system could presumably set interest rates at any (positive) level that appeared desirable. And he seems not to have realised that Marx believed the nationalisation of credit (like the nationalisation of the land) to be consistent with the survival of capitalism, since it did not entail any interference with the capitalist class's monopoly over the means of production (Marx XXXX).

Allen returns to monetary questions in chapter 10, 'The Rate of Interest'. Both Keynes and Hawtrey urged that monetary policy be used to keep interest rates low in order to stimulate private investment. This is unlikely to succeed, Allen argues; changes in the rate of interest do not invalidate his analysis, but merely 'modify the evaluation of tendencies' (p. 206). The house-building boom of the mid-1930s was indeed a product of low interest rates, but housing is a special case, involving assets with a very long life and negligible risk. Cheap money is not likely significantly to increase the level of business investment outside the housing sector. Allen's discussion focusses on the Keynes of the *Treatise on Money* rather than on the *General Theory*, and must have been written before he read the latter work¹¹. It thus runs in terms of a 'natural' rate of interest (actually the rate of return on investment) that has to equal the 'market' rate of interest in equilibrium (pp. 203-4; cf. Keynes 1930 [1971], p. 139, and Moggridge 1992, p. 486). 'Since the above was written', he writes, rather plaintively, 'I learn that Mr. Keynes has rejected his concept' of the 'natural' rate of interest (p. 210). In fact Keynes had renamed it the 'marginal efficiency of capital', leaving the substance of his theory of investment largely unchanged between the *Treatise* and the *General Theory*. Allen's exposition, not surprisingly, is somewhat confused:

triumphantly implemented in 1940 by Keynes in *How To Pay For The War*.

Nor is it denied that if only investors could be made content with *any* required small rate, i.e. the “natural” rate, the outlets for investment would always prove sufficient. This of course may entail locking up capital in plant to yield as little as 1/8 % or even less. The “natural” rate may even be negative.... Under these conditions new production could only be envisaged at an absolute loss, and in fact neither the producer would think of borrowing, nor the financier of lending, on such terms’ (pp. 204-5; original stress)

A generous interpretation of this passage would be that Allen is here describing a situation in which the marginal efficiency of capital is negative, while the money rate of interest can never fall below zero; capitalists thus make no investment expenditure.¹² At all events, Allen expects very little from monetary policy, and nothing at all from the other ‘palliatives’ that he discusses towards the end of the book, such as tariffs, currency depreciation and export subsidies (pp. 259-73).

Imperialism

Is it possible that capitalism can be saved by expansion overseas, achieved by a combination of peaceful economic penetration and military force? Not surprisingly, Allen accepts the classical, Hilferding-Lenin, interpretation of imperialism as a response to economic contradictions. He notes, uncontroversially, that armaments represent the one form of government expenditure that capitalists wholeheartedly support:

¹¹ This passage misled Maurice Dobb into believing that most of Allen’s book had been written before the publication of the *General Theory* (Dobb 1939, p. 572). This is, however, a gross exaggeration.

It would be naïve to suggest that twentieth century capitalism is run by the armaments groups, but these capitalists put themselves to much greater pains than other sections of industry to gain political influence and to have a say in the Press. In consequence, the mouthpieces of capitalist opinion are much more indulgent to deficit financing when devoted to armaments than when it is devoted to any other and more useful object. (pp. 274-5).

Thus spending on working-class housing, schools or hospitals will be denounced as ‘unsound finance’ or ‘Bolshevism run mad’, while rearmament is endorsed by the press without any suggestion that it might bankrupt the state.

In the past, Allen suggests, wars have often come to the rescue of capitalism, especially when they were associated with vigorous imperial expansion, as with the Boer War. But there are limits to the contribution that imperialism can make to aggregate demand. First, underconsumption also applies, *a fortiori*, to the colonies. Colonial peoples enjoy only a very poor standard of living. Their productivity is very low, and Western merchants drive a very hard bargain with them, so that they gain very little from trade. ‘In summary, it is seen what a low saturation point these backward markets have, and how soon an industrialised capitalism, disposing of its manufactures to these markets, reaches the limit of absorption’ (pp. 157-8). Second, there are echoes of Rosa Luxemburg in Allen’s assertion that the quest for overseas markets is eventually self-defeating, since the ‘colonies do not remain mere suppliers of raw materials, foodstuffs, and valuable

¹² There is no suggestion in *Can Capitalism Last?* of a liquidity trap.

minerals. A complete capitalist economy tends to develop' (p. 171), as is already evident in the white Dominions and increasingly in India:

By employing cheap native labour the colonial manufacture has been able to undersell British-made products, and at the same time yield extremely profitable returns. The flow of imperialist investment has thus been maintained for a while at the price of the destruction of the market for British manufactures. One group of capitalists solves the difficulty of placing its surplus capital by ruining the market for other capitalists. (p. 172)

By 1937 the 'barrier of the market' has become more formidable than ever. 'It is not a question of providing expanding markets for one capitalist economy, but for fifty. A new imperialism capable of fulfilling the need would have to establish trade relations with and political domination over Mars' (p. 281). Imperialism, then, offers no permanent way out.

Conclusion

Can capitalism last? Allen has no simple answer to this question. He explicitly rejects deterministic predictions of impending economic breakdown. Significantly, his only reference to Lenin is used to rebut any such mechanistic interpretation of Marxian political economy. 'Revolutionaries sometimes try to prove that there is no way out of the crisis', the Bolshevik leader had told the Second Congress of the Communist International in 1920. 'That is a mistake. There is no such thing as absolutely hopeless positions' (cited p. 280). Everything depends on politics, Allen maintains, and the future

is therefore inherently unpredictable. The capitalist economy is governed by laws, but it is not 'a mechanism such as a clock or internal combustion engine' and it will not inevitably 'run itself down to a standstill' (pp. 283-4). It is possible that capitalism can 'give itself repeated new leases of life by a resort to war', which is 'the most perfect of palliatives'. Thus the future of capitalism 'depends upon the acquiescence of humanity in this ghastly process' (p. 285).

I do not want to claim too much for Allen. None of the arguments that he makes is original to him. Almost all contemporary Marxists explained the Great Depression in terms of underconsumption due to low wages compounded by the growth of monopoly, often emphasising the increasingly intense contradictions produced by the interwar rationalisation of production. Many of them discussed, and rejected, debt-financed public works as a way out of the crisis, and the connection between militarism, imperialist rivalry and deficient aggregate demand were too obvious for anyone to ignore (Howard and King 1992, chapter 1). What is unusual about Allen is the way in which he brings together all these strands, interrogating Keynes from the perspective of Marx and exploring all the ways in which a growing economic surplus might, or might not, be absorbed. His book has a great deal in common with Baran's and Sweezy's *Monopoly Capital*, sharing both its merits and its failings. Both works focus on the problem of surplus absorption in non-competitive capitalism. They both examine the prospects for consumption, investment, government spending and overseas markets, roughly in that order.¹³ And, as already noted, both fail in certain crucial respects to provide convincing arguments to support their diagnoses.

¹³ After two introductory chapters, and a third which sets out the law of rising surplus, Baran and Sweezy devote the next four chapters to 'The Absorption of Surplus', dealing successively with capitalist

There was never any possibility that *Can Capitalism Last?* would attain either the readership or the political influence of *Monopoly Capital*. It was infrequently reviewed and probably not widely read. Denis Stott soon left the Communist Party, moved away from economics, and began a new career as a child psychologist, which culminated in his appointment to a chair at the University of Guelph, in Ontario. He published widely on assistance for children with learning difficulties,¹⁴ but never returned to the themes of his first book. As we have seen, *Can Capitalism Last?* was full of problems. None the less, for an amateur economist, writing in intellectual isolation in 1937, it was a creditable achievement.

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consumption and investment, the sales effort, civilian government spending, and militarism and imperialism. The similarity with Allen's chapter plan is striking.

¹⁴ Personal communication from Dr. David Turner, 23 January 2002; obituary of Denis Herbert Stott, *The Times* 26 January 1988.

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