Is Neo-fascism Inevitable? Looking at the Economic Surplus, the Baran Ratio, and Long Wave Cycles

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Economic Surplus Concept

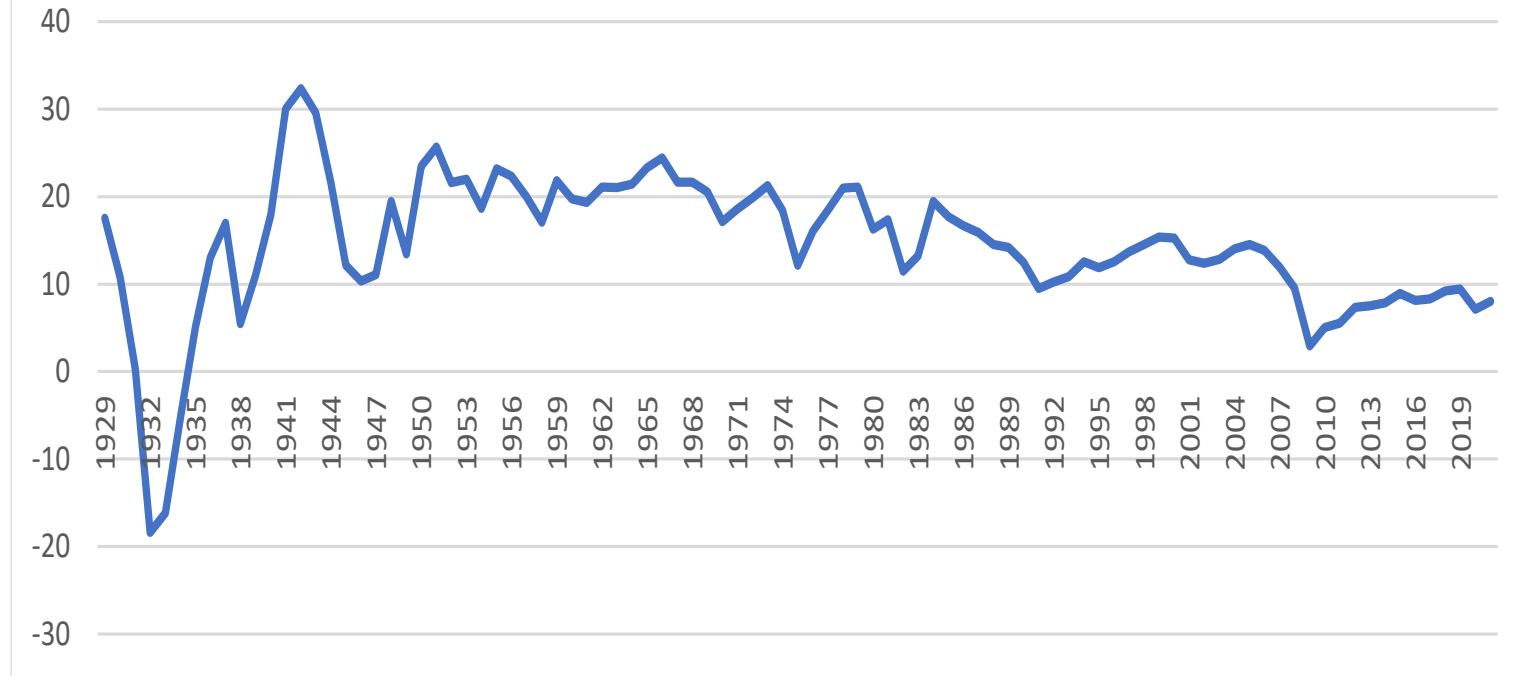Economic Surplus = Tax Revenues + Profits + Rents

An economy wide measurement.

What is generated above and beyond the necessities needed for life and going to owners of capital or to the government.

# Baran Ratio = Investment / Economic Surplus

Fig. 1: US Baran Ratio, 1929 to 2021

Source: U.S. Bureau of Economic Analysis, "Table 5.2.5. Gross and Net Domestic Investment by Major Type" (accessed Sunday, May 14, 2023); "Table 1.10. Gross Domestic Income by Type of Income" (accessed Sunday, May 14, 2023); and for tax revenues, Chantrill (2023), https://www.usgovernmentrevenue.com/ .

Investment Rates and Economic Growth

Fig. 2: Annual Real GDP Growth Rate (y) by Baran Ratio (x), 1929 to 2021
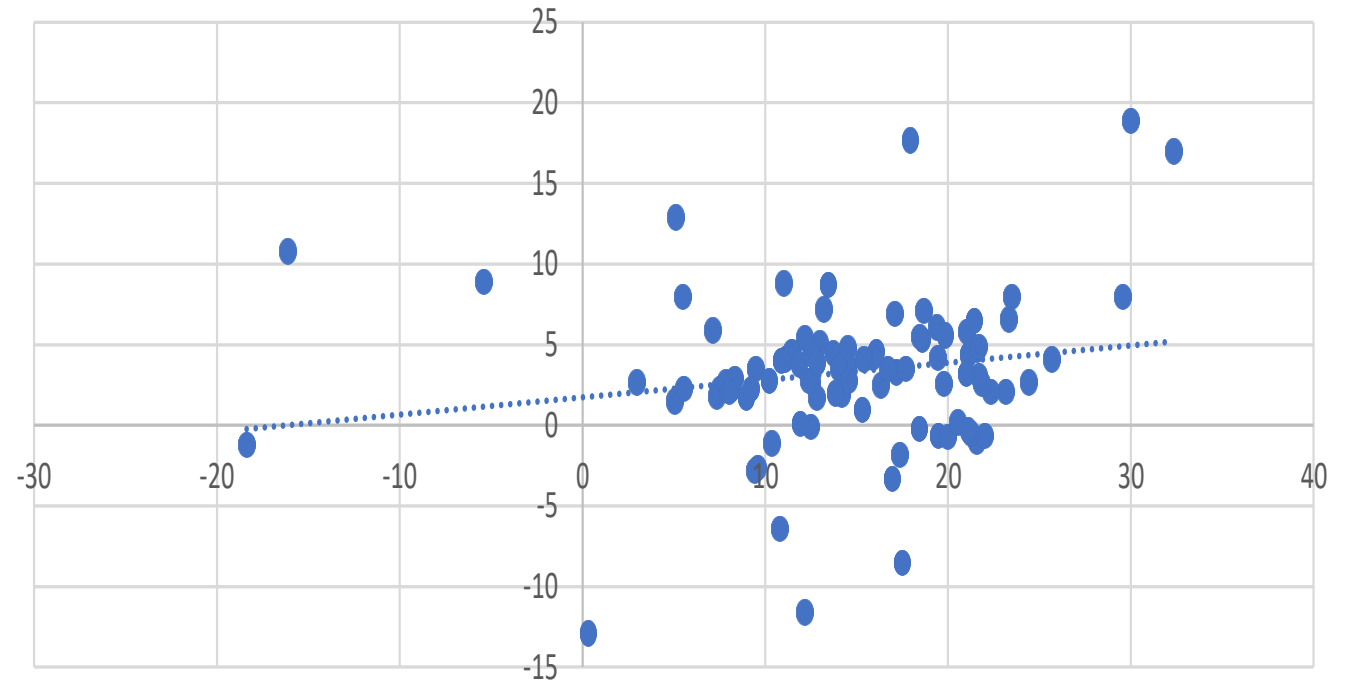
Source: Estimates from Figure 1 and from U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPC1, May 14, 2023.
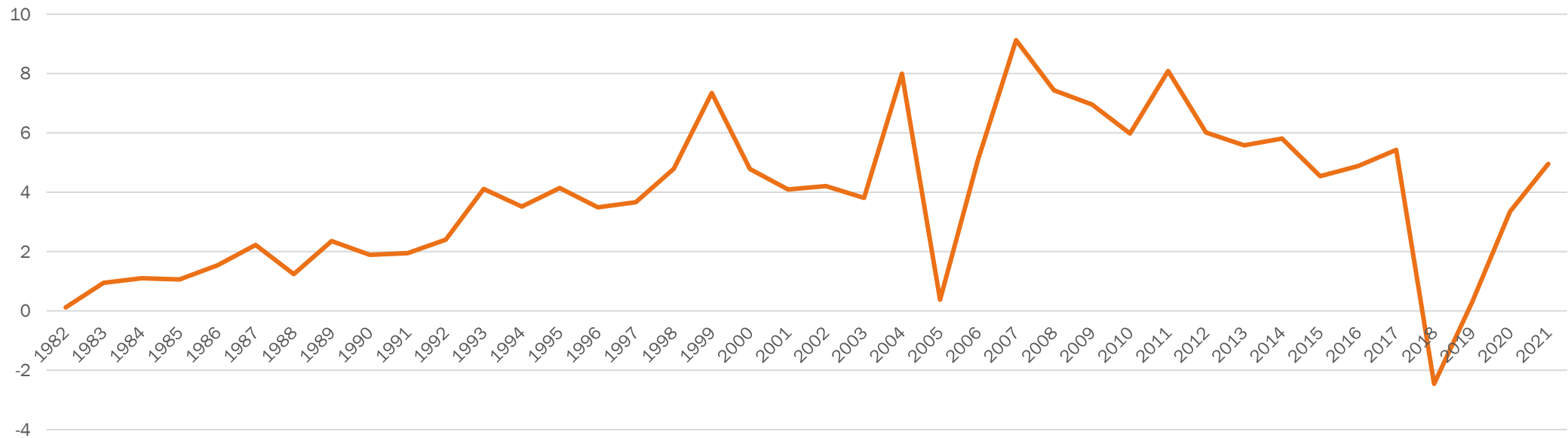
Real Investment in US since 1929

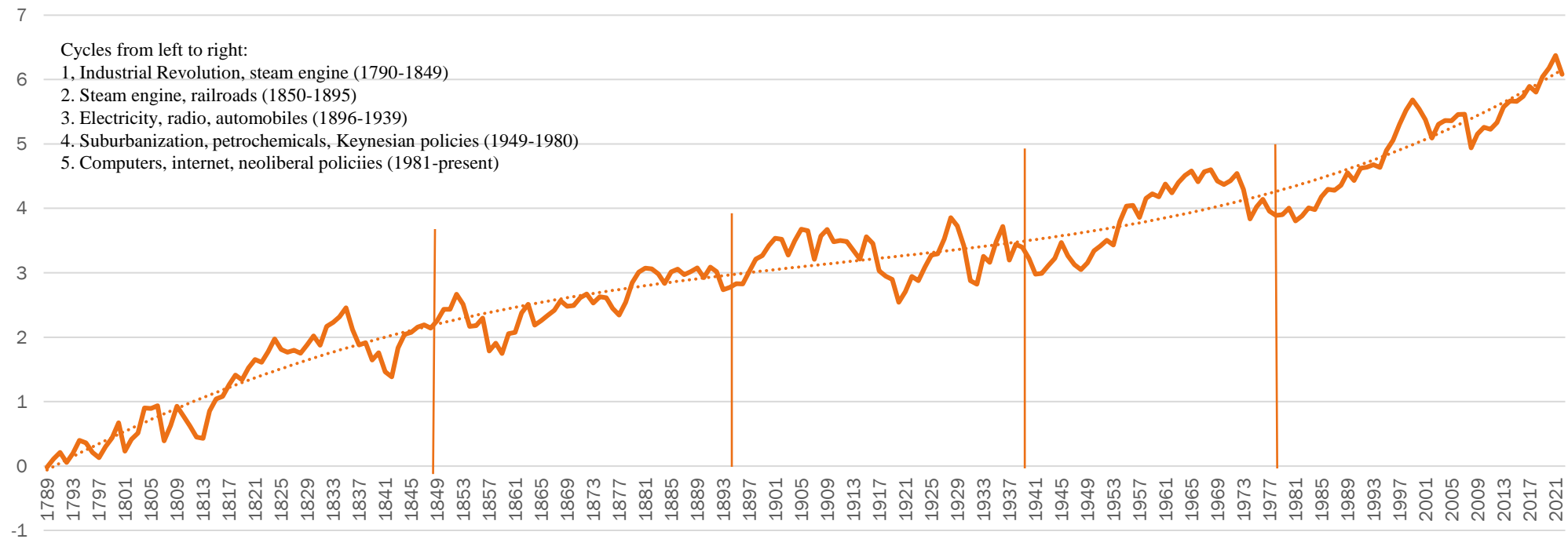Fig. 3: Real net domestic investment (chain-type quantity index), Index 1929=100, 1929 to 2021
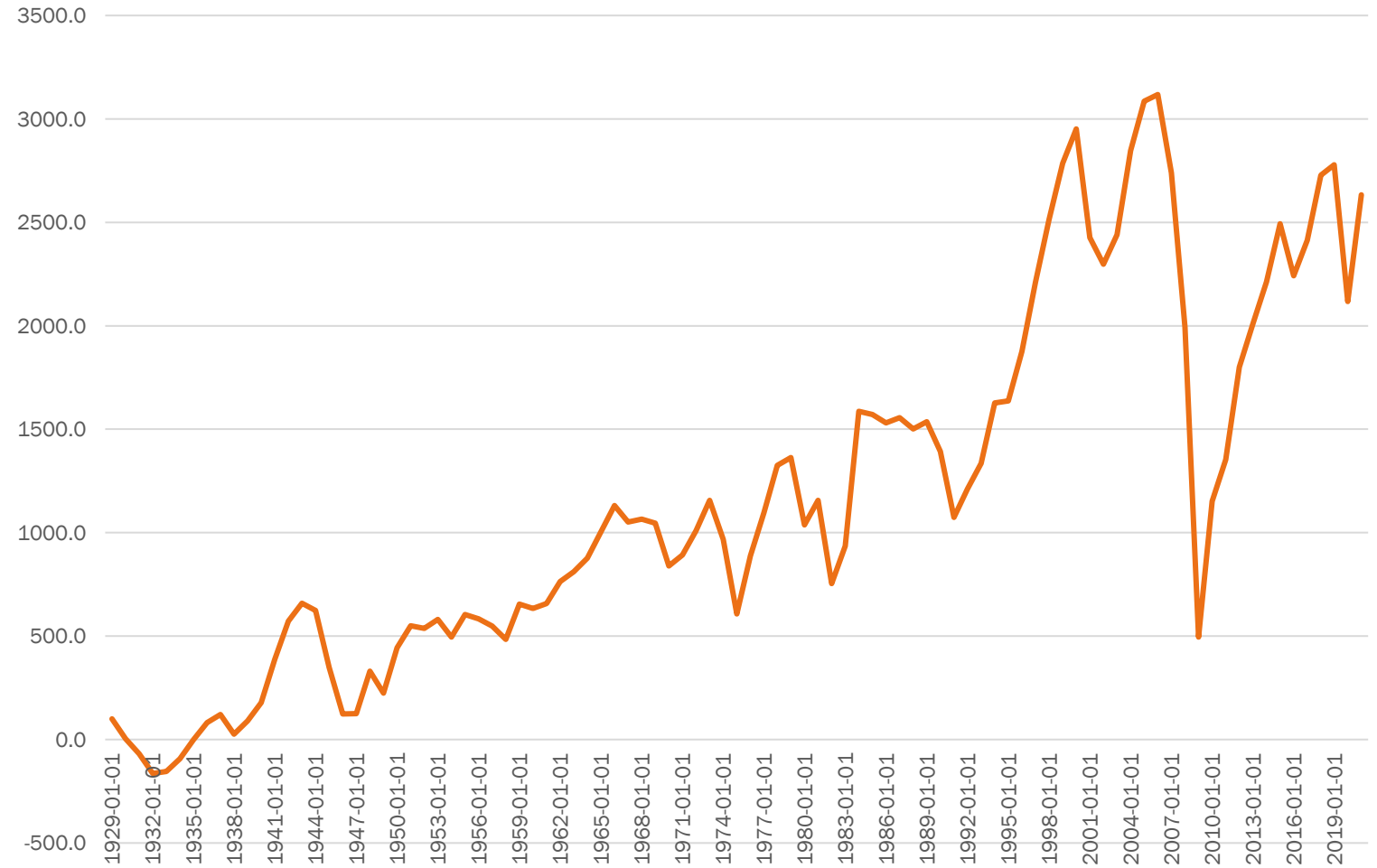
Overseas Investment….not that big

Fig. 4: US FDI / Economic Surplus Pct, 1982 to 2021

S&P Index as Example of US Long Waves

Fig. 5: Log of Inf Adj Closing Annual Value S&P

Cycles from left to right:
1, Industrial Revolution, steam engine (1790-1849)
2. Steam engine, railroads (1850-1895)
3. Electricity, radio, automobiles (1896-1939)
4. Suburbanization, petrochemicals, Keynesian policies (1949-1980)
5. Computers, internet, neoliberal policiies (1981-present)

US Economic Surplus since 1929

Fig. 6: Inf Adj Economic Surplus, $ Billions, 1929=100

y-hat = 0.1377x + 47.84
R² = 0.6776
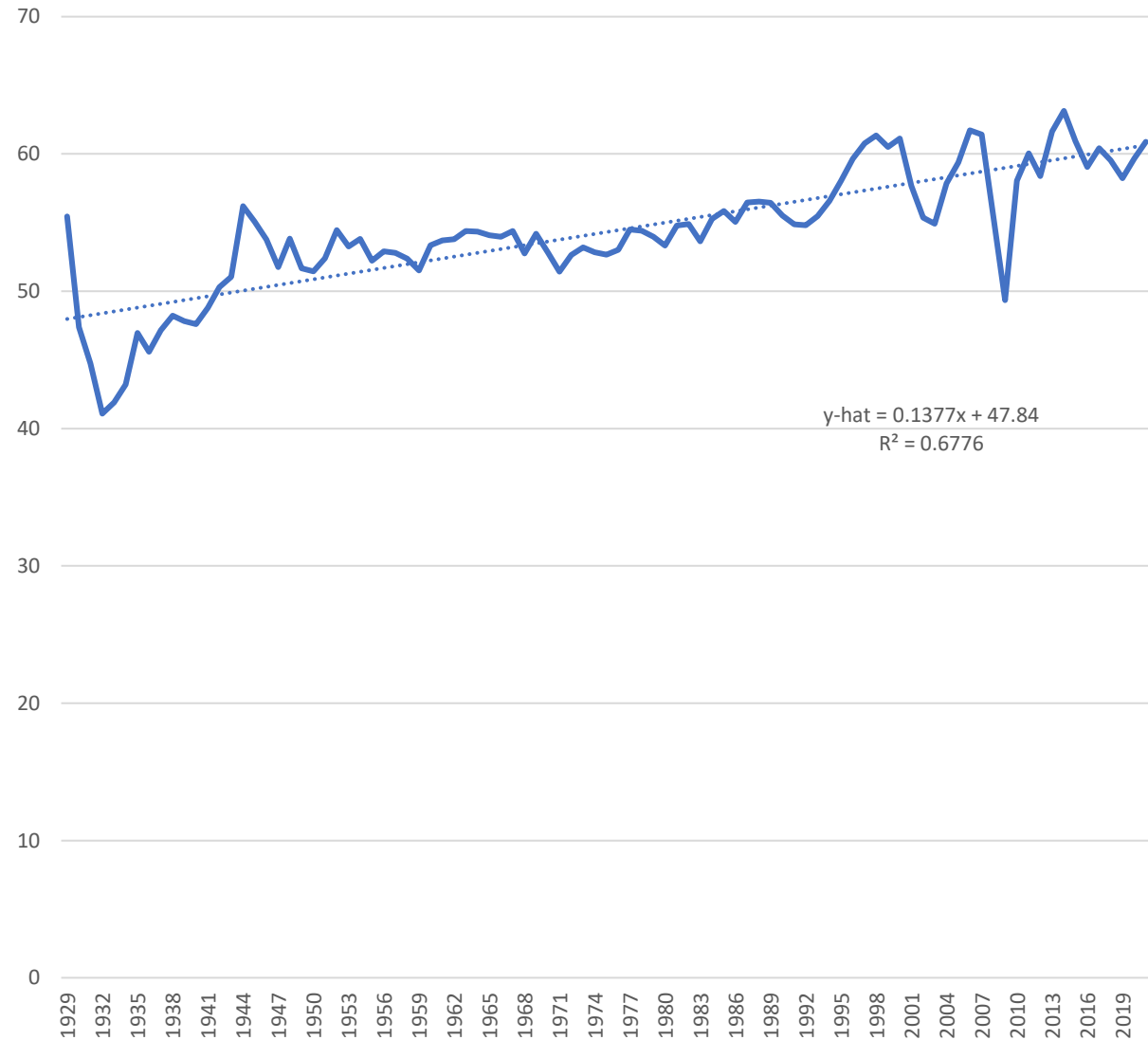
Deviations from Growth Trends Reflect Waves

Fig. 7: Moving Avg of Deviations, Actual vs Predicted Economic Surplus

$$\hat{y} = 4E\text{-}09x^6 - 9E\text{-}07x^5 + 8E\text{-}05x^4 - 0.0027x^3 + 0.0221x^2 + 0.4893x - 4.5399$$

$$R^2 = 0.8239$$
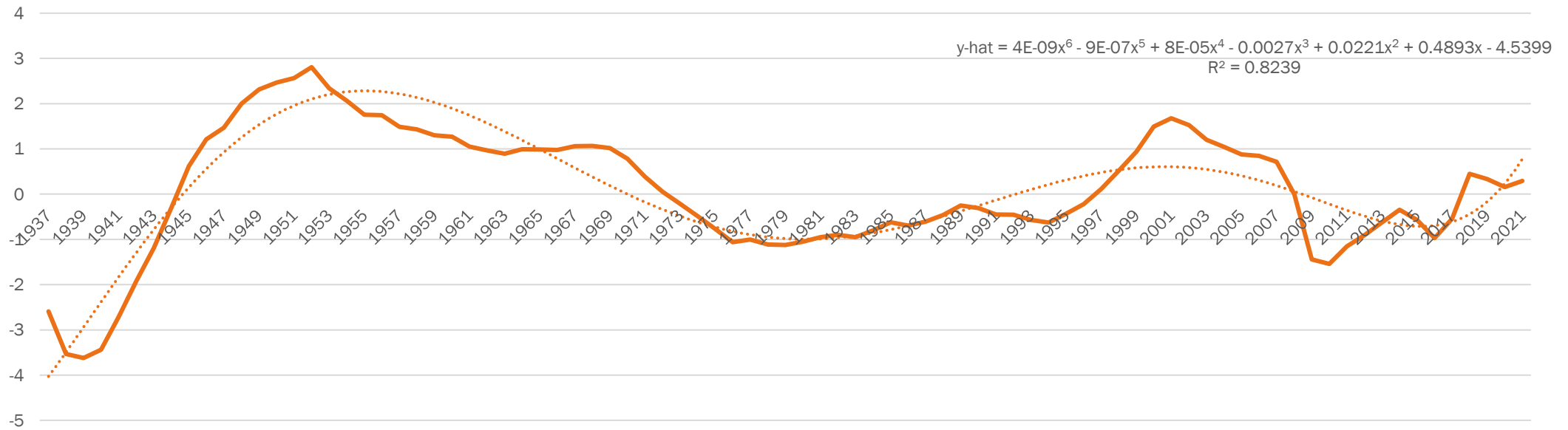
Predicting Moving Avg of Deviations of Growth Trends

1. Use Moving Avg of Deviations of Baran Ratio over time.

2. Use Moving Avg of Deviations of Fixed Assets to Avg Production Wages over time. This is a concept used by Shaikh.

3. Use of "Seasons of the Cycle" where A = winter/stagnation/depression; B = spring/slow growth and turning point; C = summer/high growth stage; D = fall/slowing growth/decline.

Predicting Moving Avg of Deviations of Growth Trends

However, to make the last variable an ordinal variable, the seasons are assigned the following values; A=1, B=2, C=4, and D=3 so as to measure intensity levels accurately.

Whether investment and innovation is exogenous or endogenous to long waves is debated. Baran and Sweezy and others think that wars and natural cataclysms are exogenous and punctuate changes in long cycles whereas investment, innovation, and profit rates, etc. are endogenous to short term business cycles. Others disagree.

Because of possible simultaneity bias (i.e., the economic surplus can drive investment and fixed capital formation and vice versa), 2sls regression is used.

2sls, time series model—Baran Ratio and Fixed Assets to Wages Ratio work!

Dependent Variable: Moving Average of Deviations of Real Economic Surplus

Independent Variables:

	b (RSE)
MA Dev Baran Ratio	0.19** (0.022)
MA Dev K/Wp	0.002** (0.0003)
Season	0.71** (0.06)
Constant/Intercept	-1.67

r-squared = 0.76

**p<0.01

*p<0.05
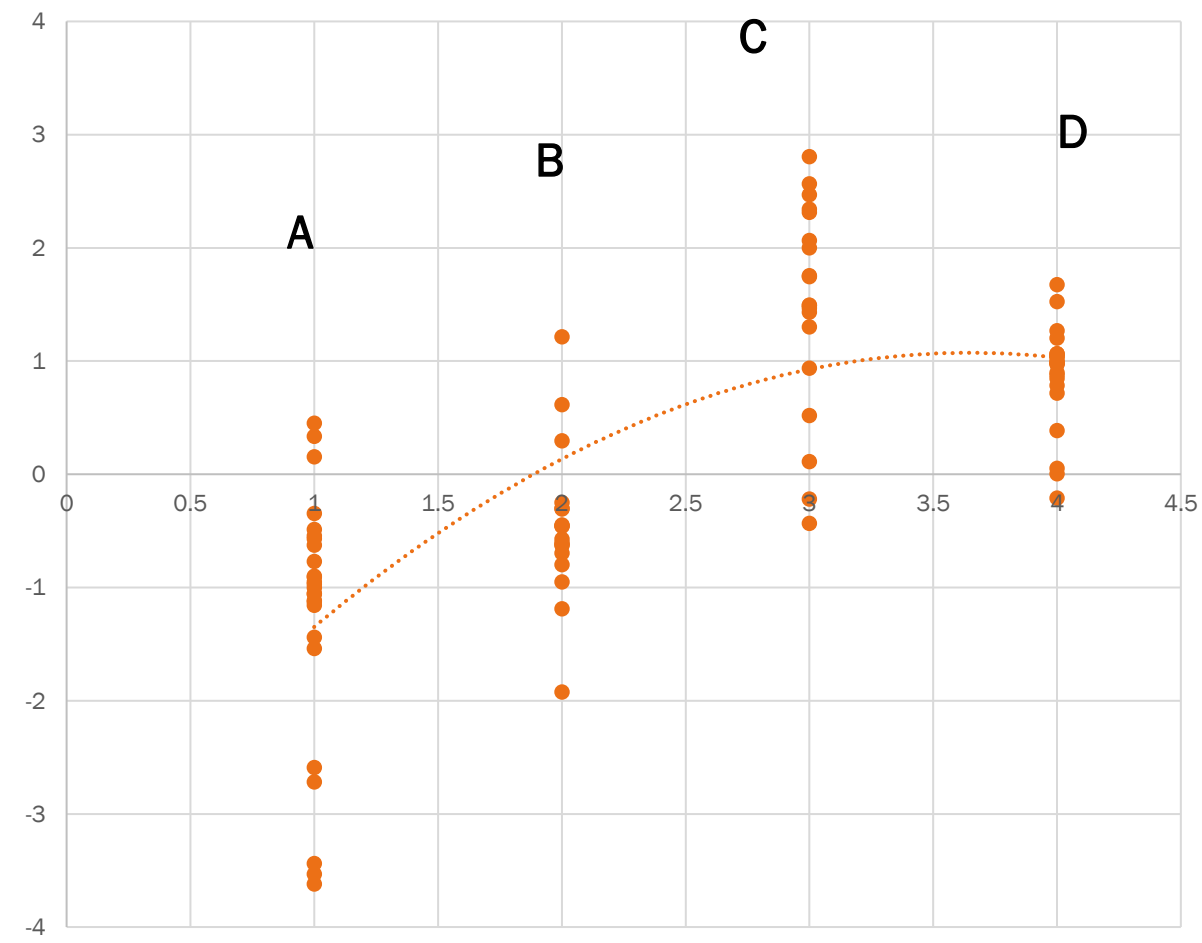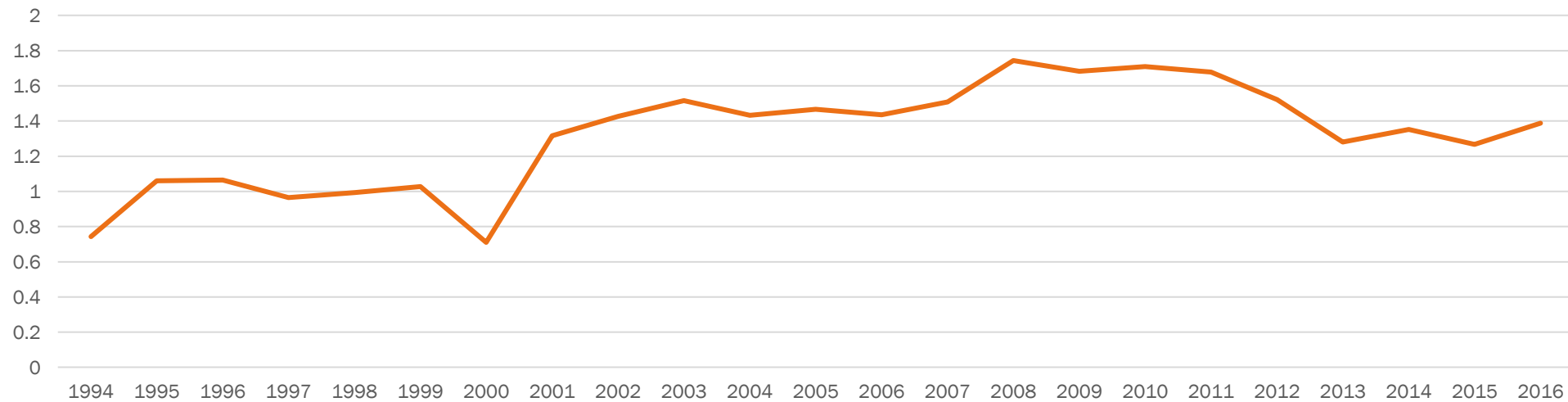
Season

Fig. 8: MA Dev Inf Adj NOS + Total Taxes (y) by Season (x)
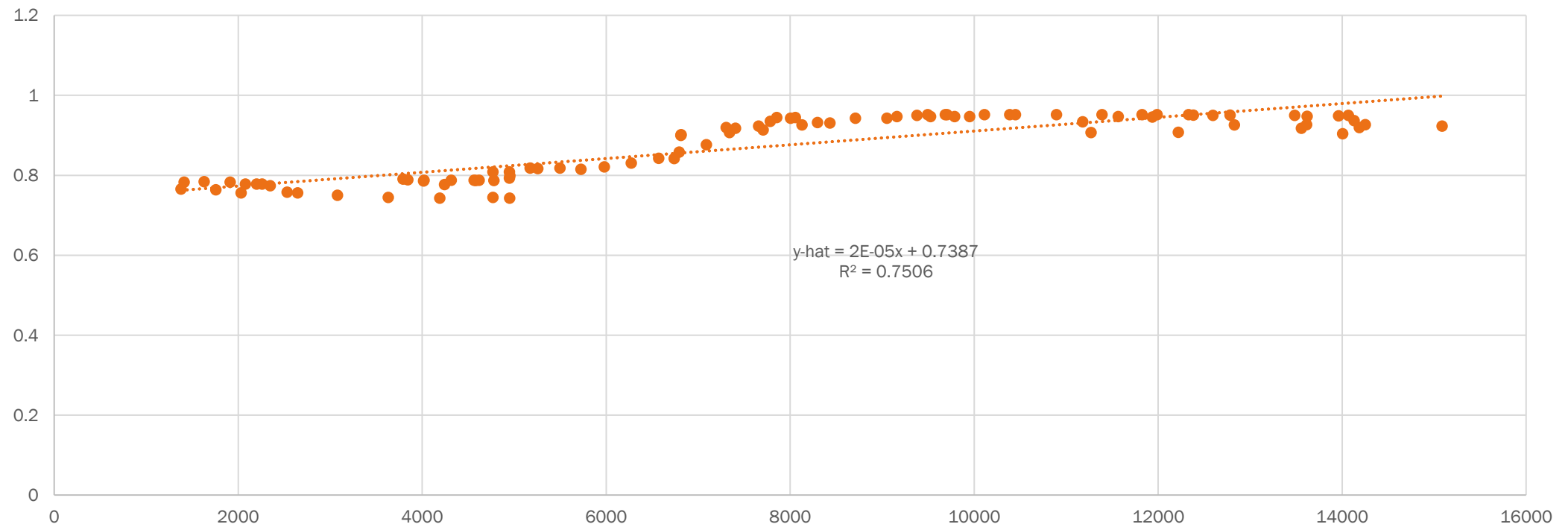Rearranged Chronologically

Global Investment Struggling

Fig. 9: Global Net Investment in Nonfinancial Assets (% of GDP)

Economic Surplus and Political Repression

Fig. 10: Human Rights Index (y) by Economic Surplus per Capita (x)

y-hat = 2E-05x + 0.7387
R² = 0.7506

Some implications

The literature reviewed in this paper notes that political tensions and conflict can often become greater during the A season of a long cycle. Recall that in this season the economy and the economic surplus are in long term stagnation. Season A can be associated with the time periods of the Great Depression of the 1930s and stagflation of the 1970s in the US. These periods of stagnation later help to usher in political leaders during a Season B who take an alternative approach to guiding the economy than that which existed during the previous long cycle. The policies that dominate the previous cycle are discarded as no longer useful or working. These new policies can veer governmental action in managing the economy toward either the left or the right.

The rise of Neo-Fascism?

In the US, Presidential and Congressional power often shift back and forth between the two major parties of the Democrats and the Republicans. However, the policy paths chosen by FDR and his fellow Democrats in the 1930s are substantially different than those of previous versions of Democratic party leaders, just as those of Ronald Reagan and the Republicans in the 1980s are more conservative than those of his political predecessors. The 1932 election of FDR and the 1980 election of Ronald Reagan are often referred to as "political realignment" elections in which dramatic political changes are made that break with the previous set of policy regimes and approaches.

The rise of Neo-Fascism?

According to some, the rise of politicians such as Trump in the US, Bolsonaro in Brazil, Le Pen in France, and Meloni in Italy signals a new wave of far right if not neo-fascist politics. If so, this political movement may be in reaction to a stage A or stage D situation that the US and global economies could be facing now. A stagnant economy could be revived by greater levels of public or private investment. If private investment is not feasible due to a lack of forthcoming innovations, then public investment in productivity enhancing measures such as building better roads, mass transit systems, ports, and school buildings and medical research would be an alternative. Such an approach would be one that harkens back to that taken in the US in the 1930s.

The rise of Neo-Fascism?

On the other hand, if neoliberalism has outlived its usefulness, then greater austerity through tax and governmental spending cuts to boost the surplus is possible and if deemed necessary by the capitalist class. In this case, political repression against any backlash by the public against such tough measures is a possibility.

It will be interesting to see in which political direction the economic long cycle may take us.

Final thought...........
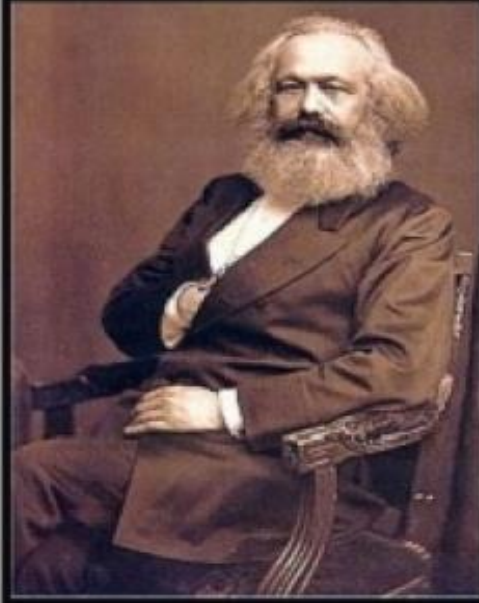
The philosophers have only interpreted the world, in various ways. The point, however, is to change it.

(Karl Marx)