Excess capital and the rise of inverted fascism: an historical approach

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Global civilisation is at a critical point as human numbers and their resultant impact have moved past the carrying capacity of the planet; the tipping point is approaching. A similar pattern of overshoot and decline is observed in economic systems as growth leads frequently to overproduction and excess capital, resulting in collapse. Economies must aim at sustainability with reduced activity, to survive in a dangerous period. For this, control by a vigorous collective sector is essential.

Why growth?

World War Two was followed by a period of economic growth. Yet in 1968 many young people in developed Western nations were questioning the lifestyles provided by their societies. They wanted a more meaningful lifestyle, and recognised that it had become physically possible to provide universal social services and good living conditions, including well-paid employment for all with liberal conditions and ample leisure time within a workweek of 30-35 hours. The leisure society beckoned.

At the same time, through the late 1960s and the decade of the 1970s, a considerable body of information described looming global problems. Since evidently all was not well, many decided to search deeper, to ask the major questions of the time and find the answers. Modern society, with its rapacious desire for never-ending growth, was foolishly pushing against limits on a finite planet while increasing inequality and joblessness within a consumer society tightly controlled by ubiquitous advertising.

Growth of population, the expansion of Homo Sapiens across the earth has long been accompanied by the extinction of other species. The first great period of human expansion was between 9,000 and 13,000 years ago after the end of the last Ice Age. The consequence was the Holocene extinction, the disappearance of large mammals from many lands. The process has accelerated in the last half-century. This “anthropocene extinction” is on par with the five catastrophic mass extinctions of Earth’s history. Yet how many economics texts mention any requirement to leave living space to what remains of the natural world?

The earth’s ability to cope with human activities has now been passed, as is evident with climate change, and resources are used nonsustainably for short-term gain – including oil and aquifer water. A number of estimates show that it would take more than two planets to support everyone at a Western standard of living; while no more than a few tens of millions could live in full balance with the natural world, perhaps two billion could experience a “developed” lifestyle. Desires for a better future most often fail to realise that equity and full development to a western standard is impossible.

A major question raised was whether the growing world population could be fed, even at a lower standard of living. If such a limit was reached, when would that be and how would events play out? Many global models, led by *The limits to growth*[1] and followed by more complex models have provided the answer. Limits will be passed around 2030, with overshoot leading into collapse.[2]

The economy is a major defining force in such activity. The holistic scholar must combine information from so many disciplines. Expert information is gathered from many sources and, while suitable analyses of the physical world were available, mainstream economics texts and pronouncements were inadequate, with little or no appreciation of the changes coming. The frequently expressed belief in the triumph of modern growth capitalism is seen in the following two influential sources, the first a popular introductory textbook.

> "Today, thanks to the intellectual contribution of John Milton Keynes and his followers, we know how to control the worst excesses of the business cycle. By careful use of fiscal and monetary policies, governments can affect output employment and inflation", so that "the deepest depressions no longer appear to be a major threat to advanced market economies".[3]

> "I argued that a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world over the past few years, as it conquered rival ideologies like hereditary monarchy, fascism, and most recently communism. More than that, however, I argued that liberal democracy may constitute the 'end point of mankind's ideological evolution' and the 'final form of human government', and as such constituted the 'end of history'. That is, while earlier forms of government were characterized by grave defects and irrationalities that led to their eventual collapse, liberal democracy was arguably free from such fundamental internal contradictions."[4]

Despite such claims, the instability of developed economies is evident. It is important to understand why and to consider likely developments as other critical factors increasingly impact. My own search has been guided by experiences in scientific research, in particular by success in understanding non-linear instabilities in both a layer of fluid heated from below and in a shear layer where one body of fluid is moving across another. [5] In each case the system becomes unstable when a defined parameter passes a critical value, at a tipping point. The new flow follows a clear pattern, to cells in the heated fluid and to breaking waves in the shear layer. Then (depending on a number of other physical parameters) those patterns become more complex, eventually becoming turbulent. Each process can be followed, and understood, with the aid of simplified models that identify the key factor defining when the system is unstable, and the further factors that determine the subsequent behaviour. There is nothing random about these processes; there is a reason for the instability and for the resultant pattern, which in each case follows the laws of physics. These principles hold also in economics.

In science, if a model does not fit reality, if evidence is not in accord with a hypothesis, the assumptions are questioned and some rejected. The reason is sought and a new theory

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[1] Meadows et al 1972
[2] Robinson 2013
[3] Samuelson 1948
[4] Fukuyama 1992, Introduction, page xi
[5] Robinson 1967 and 1973, 1974 and 1977

evolves. This process should be followed with a national, now global, economic system. Since the system is inherently unstable, will disturbances lead to some new situation, of either another regular pattern or breakdown and turbulence?

Economics of the long term

Many of the more valuable insights come from the fiercest critics of capitalism, and from early economists writing before modern capitalism became dominant, who provide a refreshing picture of issues common to all mass economies.[6] A long-term perspective includes recognition of a series of long-term cycles. Historian Fernand Braudel identified a series of economic fluctuations, with peaks followed by downturns over periods of around 50 years, through the fifteenth to the seventeenth century.[7]

> "Economic historians are more or less in agreement concerning the following medium-term fluctuations between a series of low points: 1460, 1509, 1539, 1575, 1621 – and peaks: 1483, 1529, 1595, 1650, dates which are accurate to within a year or so. This gives us four successive waves, each with its rise and fall, the first lasting 49 years, the second 30, the third 36 and the last 46."[8]

Further such economic cycles have been identified from the late eighteenth century to the mid twentieth century: (upswing) 1782-1825, (downswing) 1845, (upswing) 1845-1872, (downswing) 1872-1892, (upswing) 1892-1929, (downswing) 1929-1948, (upswing) 1948-1973.[9] With such a range of dates, it is evident that fluctuations, of growth and decay, occur frequently in large economies – both in modern capitalism and before.

Many of the theories of such cycles are complex. One categorization of these theories, noting key proponents of each, is: investment theories (Forrester), Schumpeterian innovation theories (Freeman, Mensch, van Duijn), price theories (Rostow), Marxist theories (Mandel) and social structure theories (Gordon). [10]

The one fundamental causal factor, acting across those different eras, is the onset of physical overproduction after which a system dependent on growth will stagnate and then collapse rather than move to equilibrium. There is a repeated failure to master the yields of a period of growth. Malthus was among those who recognised the problem of an eventual limit to demand.

> "There would evidently therefore be a general want of demand, both for produce and population; and while it is quite certain that an adequate passion for consumption may fully keep up the proper proportion between supply and demand, whatever may be the powers of production, it appears to be quite as certain that an inordinate passion for accumulation must inevitably lead to a

[6] I particularly enjoyed de Boisguilbert 1696
[7] Braudel 1972 and Braudel 1981a
[8] Bruckmann G, *The long-wave debate*, in Bianchi et al 1983
[9] van Duijn J J, *Comments on topics 1 and 5*, in Bianchi et al 1983
[10] van Duijn J J, *Comments on topics 1 and 5*, in Bianchi et al 1983

> supply of commodities beyond what the structure and habits of such a society will permit to be profitably consumed."[11]

Marx considered the "internal contradictions" of capitalism and discussed the way in which a fall in the rate of profit would lead to stagnation and to recurring crises.[12] Further growth then only becomes possible once overproductive capacity has been destroyed.

In the absence of central control an economic system will follow its internal behaviour patterns. The capitalist system seeks profit and requires that excess capital be invested in new enterprises. The profits arising from that investment then further enrich the original possessor of excess. Any capital left idle fails to generate such additional wealth, and may indeed reduce in value in inflationary periods. The process works best when the capital is recycled quickly, and when the volume of goods produced increases rapidly. The successful capitalist profits from this system and desires continual growth, denying any limits.

So long as there is sufficient demand for new products, the product can be sold and this recycling of profits may generate a period of economic growth. But there are limits to the rate at which any given society can make use of material products. The limits to consumption may be absolute – when every person has all that is required – or may be generated by an unequal distribution of income, with some groups having very little purchasing power.

Once a community has the capacity to provide for all such needs and a given market is saturated the process begins to break down. In most productive enterprises there is a long lead time between planning and execution; it was some time in the past that investors saw an opportunity for successful profit and set up the process which involved the construction of new plant and the provision of goods to the market place. Many different investors would have recognised the same chance for profit and when the limit is reached new plant would still be under construction.

There is then no chance for an orderly transition to a new and more stable production pattern. The new producers are more efficient, having built plant using the latest technology. They can compete successfully and the older producers are forced from the market. So begins a period of retrenchment and unemployment.

A wave of positive feedback passes through the economy. As new plant is no longer required, the first to suffer are those who manufacture production machinery, and their suppliers. As plants close down purchasing power is reduced and further businesses struggle. Demand for investment capital reduces; available capital has nowhere to go and the financial system struggles.

This process is a feature of any market economy, Medieval or modern, as expansion of trade both brings benefits and creates great dangers with the instability and "overshoot and decline" of overproduction.

Just as many modern economists, Marx was driven by an ideological belief. He hoped that a crisis would lead to an overthrow of a struggling system by a socialist revolution in developed countries. Recognition that there had already been a series of such crises indicated that the

[11] Malthus 1936. First published in 1820.
[12] Marx 1954. The 3 volumes were originally published in 1867, 1884 and 1894.

dominant system might recover rather than be replaced, and that such cycles could continue into the future. Russian economist Nikolai Kondratieff (also written Kondratiev; head of the Konjunktur Institute in Moscow) was the first to bring these observations to international

attention in 1925[13] and Joseph Schumpeter[14] suggested naming the long economic cycles as "Kondratieff waves" in his honor. Kondratieff identified three phases in the cycle: expansion, stagnation and recession. The length of the periods, and the particular features, obviously vary with historical circumstances.

The Great Depression

Kondratieff's 1925 theory was soon validated by the Great Depression, which commenced with the stock market crashes of 1929 and 1933 and led on through the expansion of fascism to the Second World War. Observations then and since show a close fit with the model of growth leading to increased trade and over-production, stagnation and collapse.

There had indeed been a prior period of considerable economic growth and increased trade as between 1920 and 1929 the GDP of the USA increased by 43%, that of Great Britain by 13%, and that of France by 54%.[15]

> "Economic progress was rapid between 1925 and 1929, as illustrated by the League of Nations Index for Manufacturing Industry, which rose eighteen points during this period, the figure for Europe (excluding the USSR) and North America show rises of nineteen and twelve points respectively. The boom was not a period of uninterrupted national growth, but recessions, such as those experienced by Britain and Germany in 1926 and by the United States in 1927, were shortlived. During this period international trade expanded even faster than production, and the output of raw materials increased substantially."[16]

There is ample evidence of overproductive capacity and excess stocks in the years leading to the depression.

> "It may be that the market for some consumer goods – for example, automobiles – was reaching a state of dynamic saturation ... and therefore consumer resistance was mounting; the housing market too was becoming saturated."[17]

> "In mid-May 1925 the Harvard Economic Service had called attention to the 'existence of a considerable excess of capacity in many branches of industry, especially in those producing basic materials or staple commodities intended for sale to ultimate consumers'. …
> In midsummer of 1928 E C Harwood had warned that the practice of 'super-stimulated sales' had accelerated the approach to a 'satisfaction point' (the

[13] Kondratieff 1925
[14] Schumpeter 1939
[15] Saint-Etienne 1984
[16] Fearon 1979
[17] Fearon 1979

> term he preferred to 'saturation point'), for automobiles in particular, and that the automobile industry was already 'vastly over-equipped' ... Stuart Chase had written early in 1929: 'If we should cease to buy automobiles at the present rate, what would happen to prosperity, would it go down like a pack of cards ?' …
> The Berlin Institute for Business Cycle Research correctly foresaw that the German downturn in 1928 would be long and severe, recognized the depression as no short-term affair, and attributed its severity to the excess capacity to which the German rationalization movement had led."[18]

Agricultural production had also moved ahead of demand.

In the face of excess production, purchasing had been stimulated in a consumer society.

> "The sale of more expensive items was assisted by the introduction during this period of hire purchase, or instalment credit as it is known in the United States. By 1925, the volume of instalment paper outstanding was $1,375 million, and by 1929, $3,000 million."[19]

Everywhere there was evidence of excess capital and increases in money supplies. A manuscript completed in 1928:

> "rightly pointed out the recently ended easing of the money market, the rapid increase in bank credit, the relatively high rates on brokers' loans, the unusually large volume of savings, the ease with which securities had been marketed, the heavy investment by the public in the security markets, the wide diffusion of ownership of bonds and shares, and the spectacular advance in stock prices."[20]

Stocks were overvalued in a booming stock market: "ten times annual earnings had long been regarded as a fair selling price for stocks, but ... in 1928 the ratio had risen nearly to twenty to one."[21]

Some economists have suggested that protectionism was a cause, but in fact such policies were introduced after the strains became apparent, and often were successful, as in Chile, India, Mexico and Japan. [22]

The central control system of USSR did not collapse. Recovery in the West was first in the centrally-controlled fascist nations of Germany and Italy; that system did control the economy and get people back to work but at an enormous cost for personal freedom, and resulted in the destruction of the Second World War.

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[18] Davis, 1975
[19] Kindelberger 1973
[20] Sprague and Burgess; referenced in Davis 1975
[21] Davis 1975
[22] Garraty 1986

The mixed economy and a long stagnation

War was followed by a period of recovery and rapid economic growth, in both capitalist and communist nations. By 1970 there was overproduction in many sectors.[23] An unstable period commenced with the 1971 collapse of Bretton-Woods system as major nations moved off the gold standard to floating exchange rates, followed by oil and inflation crises and a series of considerable instabilities such as the 1987 stock market crash.

As suggested by the theory of economic cycles, expansion was followed by stagnation. There is no insistence in the theoretical model for exact repetition; each cycle has particular characteristics determined by the society of the time. On this occasion the breakdown from stagnation into recession was long in coming; the stagnation phase of the Kondratieff cycle, which had been almost absent in the previous breakdown of 1929, persisted for 38 years, with economic crisis signalling the recession phase in 2008.

The reason for such a long stagnation period is found in the considerable government action in most countries in reaction to the suffering of the previous depression and the need for collective, national action to fight a World War. This was a mixed economy, with large government and private sectors, not simply an uncontrolled market economy. Collective enterprises were not part of the market, and the varied state expenditure provided stability, continuity rather than economic collapse.

Social benefits cushioned any downturn and dampened the feedback of job losses, reduction in spending and further job losses. The considerable public sector (services and collective ownership) remained largely untouched by problems of reduced investment opportunities and competition among overproducing manufacturers, as did military forces. This was largely a controlled economy, as the evident failure of the free market in the Great Depression had led to the formation of many powerful national and international control agencies – reserve banks and central banks, World Bank and International Monetary Fund (IMF). Just who controlled the control agencies was to be key.

Symbiotic relationships between state and private enterprises have long existed – economies have been mixed with both a central government sector and entrepreneurs carrying on trade and production within the marketplace. History is littered with examples of the interactions between the two players. For example, when a credit crisis in 33 AD put a number of senators at risk, the central government of the early Roman Empire rescued the market through a loan of 100 million sestertii made by the emperor Tiberius to the banks (Rome had no central bank, and regulation of the banking system was minimal).

When in 1306 Philip of France was faced with extensive financial liabilities, partially inherited from his father's war against Aragon and partially incurred by the cost of his own campaigns against the English and their allies in Flanders, he expelled the Lombard bankers who had earlier made him extensive loans and expropriated their property. The important point here is the existence of such wealthy financial non-government institutions in past centuries, and the interactions with capital flowing between the two sectors, depending on immediate needs and the balance of power.

[23] OECD *Interfutures* internal papers

Many such features are evident today; a mixed economy is normal rather than an exception, and ‘free enterprise’ is not an entirely new feature introduced with modern capitalism. Just as once kingdoms borrowed to finance wars, now the massive war machine of the USA is funded by loans from the financial sector; and governments have acted to bail out the financial sector from the Roman Empire to today. Often the central agencies have provided support for the market sector, and at other times political movements have led central government to build social services for general benefit using taxation from free enterprise.
The recent lengthy stagnation, an unstable bubble economy marked by series of crises but enduring, has shown the positive contribution of collective action and central control, providing a basic constancy to the inherent instability and excesses of the market.

Into recession, 2008

However the strength of the dominant free market ideology was such that the power and importance of such controls has been denied, and those stabilising central government activities have been degraded – on the periphery in New Zealand as in central nations such as the Britain and the USA. Public enterprises have been privatised, working conditions reduced and the top tax rates much reduced (more than halved in many cases). In the absence of significant growth, the wealth of the ruling class has increased by reductions to the working class, redistribution to the wealthy. Controls introduced to prevent repetition of the previous depression have been whittled away.

Many of the activities within the stressed bubble economy became absurd, such as management of a collateralised debt obligation (CDO) portfolio with no knowledge of what was in any CDO so that “A CDO was, in effect, a credit laundering service for the residents of Lower Middle Class America.”[24] No one was really thinking about what they were up to so long as the merry-go-round continued and the incomes of the players remained huge. While those who played with vast sums of money, forcing loans on struggling peoples and countries, must take much of the blame, they were only doing what was required of them. Excess capital had to be recycled somehow.

The basic misunderstanding of the need for controls and a strong public sector was clear in statements by the long-time chairman of the Board of Governors of the USA Federal Reserve, Alan Greenspan, with his firm belief in the market. “One could hardly imagine that today’s awesome array of international transactions would produce the relative economic stability that we experience daily if they were not led by some international version of Smith’s invisible hand.”

The crash of 2008 provided a graphic test of the two alternative theories of free-market capitalism, which proved to be unstable as forecast by the Kondratieff cycle. Greenspan was forced to admit his mistake, and told the House Committee on Oversight and Government Reform of being “in a state of shocked disbelief” as he admitted that he had put too much faith in the self-correcting power of free markets. He spoke of a “once-in-a-century credit tsunami” that had engulfed financial markets and conceded that his free-market ideology shunning regulation was flawed.

When the financial sector collapsed in 2008, the derided collective, public sector came to the rescue with government bailouts. Collective enterprise proved to be the secure base of the economy.

[24] Lewis 2010

Control by oligarchy

A balance of power, with authority divided among various well-defined players, is a fundamental principle in government. As with separation of power between the legislative, executive and judiciary branches of government, the two great sectors of the economy, the public and the private, should sit apart under separate control. When the private enterprise sector passes through overproduction and the stresses of excess capital to one of the periodic depressions so evident in economic history, the independent collective sector will be available to take remedial action – during the recent long stagnation phase recession was averted for decades by the strength of the collective and by considerable control of the market.

Unfortunately many of the controls, and the collective sector itself, have passed under the control of the private enterprise sector. Control mechanisms, such as the IMF and World Bank, and many national government financial institutions, are directed by a deep belief in the free market (as Greenspan noted above). This has been accompanied by a steady exchange of personnel between the corporate and financial world, and central government.

Under the dominant free enterprise ideology the collective has been downgraded and stripped, with the reduction of the stabilising influence of public ownership. There is no longer an insistence on adequate pay and conditions, and many regulations set in place to deal with the previous great recession have gone. There have been extraordinary payments to managers of financial institutions, coupled with significant reductions in higher tax rates. The crises following 2008 have been dealt with by support to the major financial institutions, which had contributed significantly to the collapse, while the general population suffers. This is nothing more than a modern phase of class struggle. In an evolution warned against by President Eisenhower in 1961, the military-industrial complex has become the military-industrial-financial complex.

This is not a free market, it is a control economy, controlled by a wealthy class for their own benefit. The ruling oligarchy, widely referred to as the “One Percent”, is a unified class, firmly in control of the state, with political dominance, high rewards for loyalty, a ubiquitous advertising propaganda system, mass surveillance and more.

Such central control reverses the standard fascist pattern. Mussolini described his fascism as a single party state that incorporated corporatism into its rule. He said that fascism should more appropriately be called Corporatism because it is a merger of state and corporate power. Viewing the nation as an integrated collective community, fascists see pluralism and diversity as a dysfunctional aspect of society, and justify a totalitarian state as a means to represent the nation in its entirety. In systems behaviour terms this is a direct attack on the diversity and separation, the balance of power, that provides equality and stability to modern nations.

Mussolini would have the state control the corporates, destroying any balance of power. Now it is the corporates that control the state. The current situation in many Western nations is inverted fascism with the corporations incorporating the power of the state as the inverse of the past fascist model. This has been developed by ranks of lobbyists with their large staffs and monetary largess that is used to indoctrinate and finance politicians (senators and congressmen in the USA) inculcating them with policies that suit the corporates. This is corporate fascism. [25]

This oligarchic class is in control of agencies like the IMF, advising or forcing nations to open up to multinationals. The once powerful Third World non-aligned movement has been crushed with developing nations forced to move away from self-reliance, to open their economies to international finance and foreign ownership. Insistence that nations borrow sums led many into massive debt and the poverty trap.[26] The great control organizations, both national and international, serve the wealthy, with beliefs and policies that increase inequality and make the world safe for capitalism.

Rebuild a strong collective enterprise

The two major sectors of mass civilisation, collective and market enterprises, are out of balance, bringing inequality and instability in troubled times. This historical overview and reference to the theory of Kondratieff cycles, makes the double point that modern events are following an old pattern, and that a strong and independent public sector is vital to a healthy economy.

The battle for dominance is a class war. There can be no separation of economic and political thinking; they are aspects of the same question of social organization. Collective action, socialism, is not only beneficial for social equity, it's good economics. High taxes and controls by the state must break the power of the oligarchy, to bring equality and to provide a firm base for the ship of state in stormy times.

Global overshoot and decline

This review of long-term economic trends was stimulated by the need to provide a comprehensive overview of all aspects of the global picture, providing the economic dimension to a holistic forecast that combined information from many sources, many disciplines. A life-long project commenced with awareness that overpopulation and misuse of an entire planet by a dominant species may soon result in overshoot and decline, with massive environmental harm, shortages of water and food, followed by widespread disruption and population collapse. Mass economic systems follow just such an overshoot and decline behavioural pattern, now involving a global economy rather than a regional civilisation. Economic recession will add to the various global problems as they combine in a perfect storm.[27]

The mainstream of futures research insisted on the development of sets of scenarios presenting a variety of possible futures, assuming that the future could be provide information guiding further action, and hoping that this would assist a wise choice. In this view futures studies centrally involves "the construction and evaluation of alternative futures for the purpose of increasing human control over the future". [28] It was soon evident, however, that socio-political control was sufficient to block alternatives, to prevent adequate action and to

[25] Robinson 2013
[26] Robinson 1989
[27] In a 2009 speech, Professor John Beddington, Britain's chief scientific adviser, stated that the world is heading for major upheavals as we head into a perfect storm in 2030
[28] McGrail 2011

preserve, indeed to increase, the power of a dominant class. (A similar pressure has been evident within the economics profession.) That appreciation of the strength of the global oligarchy of corporate fascism directed further personal research towards one forecast with the assumption of continuity and an expectation of those same policies continuing to create, rather than to solve, problems. This failure to adapt and change is evident in many ways; thus despite forty years and more of studies of the long term and the identification of major issues, warning of coming global overshoot and decline, there has been no effort to control or reduce population, no adequate reduction in greenhouse gas emissions. In economics and politics, growth and innovation rule supreme as an ongoing desire for further growth has long provided a block to action towards a stable, sustainable, equitable leisure society.

The logical step has been away from alternative scenarios to one forecast. This followed the scientific method by including features that have been tested as the years pass. The resultant global forecast is for overpopulation, food and water shortages, economic recession and increasing inequality, with many attendant crises, including the end of the oil era, increasing climate change and economic recession, disruption and perhaps nuclear war. Many of these trends are clearly evident now; the crunch date for general collapse is around 2030.

This is truly a storm, yet that global picture will continue to be ignored, with no action taken to change a non-sustainable system or to aid survival in the inevitable catastrophe.

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SUGGESTED CITATION:
John Robinson, "Excess capital and the rise of inverted fascism: an historical approach", *real-world economics review*, issue no. 67, 09 May 2014, pp. 78-89, http://www.paecon.net/PAEReview/issue67/Robinson67.pdf

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