

## Book Reviews

Ravi Batra. *Dharma and Depressions: A Review of "The Great Depression of 1990"*. New York: Simon and Schuster. 1987.

Professor Ravi Batra's research and reflection have led him to believe that the world is headed, more or less inexorably, towards a major depression "of the same, if not greater, severity" than the one of the nineteen-thirties. He explains that he has written the book to warn people and he provides a set of investment and financial tips, so that the reader can avoid personal disaster in the "impending cataclysm". Batra's tone is light, pleasant but totally self-assured; he "fervently hopes that his prophecies turn out to be totally wrong" but he does not expect this outcome. One must accept that the book is a serious effort at scholarship and analysis and that Batra truly believes in his underlying model and the forecasts it produces. I stress this because there are many passages, even entire sections, in the book which, taken by themselves, might lead one to suspect that the book is a hoax and that the author is having fun at our expense. But, let us reject this possibility and attempt to deal seriously with this presumably serious book.

The underlying theoretical argument of the book is that there are "social cycles" which follow a set pattern, "that society evolves and undergoes transformations in time with a discernable rhythm", and that this pattern and this rhythm have held for all recorded history in all known societies and hold today as well. The inner dynamic of this rhythmic pattern is the inescapable "natural" division of all societies into four categories or classes of people. These four classes vie with one another for power and replace one another as the dominant class according to an "evolutionary" law. Batra gives credit for the discovery of this "law of social cycles" to P. R. Sarkar, who is evidently an Indian philosopher or historian. (I confess the name was unknown to me before reading Batra's book.) Batra says: "this law of nature is infallible because it is based on the evolutionary principle, just as human evolution is indispensable, just as the onward march of humanity cannot be arrested, so are social cycles an inevitable natural phenomenon where social supremacy shifts from one class to another, from the collectivity of one type of mind to another."

So far so good. The idea of social evolution or the cyclical rise and fall of societies is not new and has had considerably more elegant formulations at the hands of Hegel, Spengler, Toynbee and others as Batra himself notes. The Batra-Sarkar special wrinkle is the four class division of all societies and their evolutionary rise to and fall from social dominance as the driving force of the cycles. The four classes are identified as: (1) labourers; (2) warriors; (3) intellectuals; and (4) acquiritors. In the modern world these four classes are identified as: Labourers are farm workers and

unskilled factory workers, who lack physical or mental prowess, education, marketable skills and ambition; warriors are soldiers, policemen, firemen, professional athletes, and skilled blue-collar workers and all other who possess superior physical skills or strength; intellectuals are writers, scholars, lawyers, physicians, poets, engineers, scientists, white-collar workers and priests; acquirers are merchants, bankers, money-lenders, businessmen and landlords and others to whom money is all that matters and who covet wealth for its own sake. These four classes always arise according to Batra because they follow from "innate differences in human endowment and nature" which "may or may not be hereditary" and again: "Class divisions persist because of inherent differences in human nature". Some mobility among classes is possible but "the possibility of social mobility should not be exaggerated".

Now, one is puzzled by these four inescapable natural classes. Why not simply smart people and dumb people? Or strong versus weak? or leaders and followers? or urban versus rural? There would seem to be many divisions common to most societies which are a good deal more natural and universal than labourers, warriors, intellectuals and acquirers. Batra's (and Sarkar's) ethnic origins may provide a clue. For to anyone familiar with Indian society this four-fold division is very familiar indeed; it is the ancient, traditional, hereditary occupational stratification of all Hindu society. Batra's adaptation of the Hindu social system (sometimes called the caste or Dharma system) is, however, partial and awkward. His explanation of why a given person is "born" or otherwise ends up a warrior or an intellectual is vague and illogical. Does being a policeman now require the same endowment it took to be a warrior in ancient times? Does being a policeman really require more strength than being a farm worker? Does being a white-collar worker require more intellect than being a soldier? Are people really destined by "endowment" to a given occupation? Finally, are occupations really a good index of a person's mental characteristics? These questions are difficult for Batra's theory to answer whereas the philosophical theory underlying the Hindu system of social stratification provides a very clear answer. One is born into a given social class as a result of deeds, good and bad, in an earlier life and escape from that class is not only impossible but undesirable, since any effort at such social mobility is in itself a transgression against the cosmic order and hence reason for further punishment in the next incarnation. (Batra's typology leaves out the fifth class of Hindu society — those below caste, the so-called untouchables.)

Empirically Batra simply asserts the universality of these classes and then moves lightly through world history showing how warriors, intellectuals, labourers and acquirers have always existed. These four classes, it can be argued, are commonly if not inevitably found in any mainly labour-based, agricultural and handicrafts society which is also politically absolutist and religiously theocratic; this is, of course what India was for several thousand years. In the modern world, however, the Batra-Sarkar four-fold "natural" division of society into labourers, warriors, intellectuals and acquirers lacks any real foundation in theology or in social science. His

typology makes little sense as an operational device for understanding the way modern social and economic systems are, in fact, stratified and divided.

A good deal of the book consists of Batra's efforts to review historical and anthropological materials to show how the law of social cycles has operated in the past. In general, he argues that in the beginning all were labourers and there was no civilization. Warriors emerge to provide leadership, discipline and purpose. They in turn are displaced by intellectuals (priests, and courtiers, mostly, as he tells it) who convince the other classes that they alone possess access to divine power or wisdom. Finally, the acquirers take power on a wave of materialism and selfishness which corrupts all values. The end of the cycle comes when the acquirers have effected corrupted and neutralized all other classes save the labourers (or have driven the other classes to labourer status). This stage presages a collapse, a return to chaos and the beginning of a new cycle.

By now we see where Batra's long journey into these arcane matters is leading him and us. The U.S. and the rest of the world, he says is approaching the last stage of such a cycle of social evolution. The acquirers (bankers, businessmen and money-lenders) have usurped power and corrupted society. The system will soon collapse and a new cycle will begin.

The specifics of the present situation arose are dealt with next. Most of modern world history has been an age of dominance by the acquirers. The growing money supply in the U.S. since 1770 is attributed to the growing dominance of the acquirers. Batra says somewhat archly "why money is the primary determinant of economic activity under capitalism can be adequately explained only by Sarkar's law of social cycles". This, I confess, is obscure to me. I would have thought that growing monetization and market integration would have been sufficient explanation without the need for warriors, labourers and intellectuals. That money motivation started becoming paramount a couple of hundred years ago seems clear but we do not need social cycles to accept this.

In his discussion of US monetary history Batra stumbles over the fact that there are more or less regular cycles in the expansion of the money supply and in the rate of price increase, "The chart thus clearly reveals that money growth is the primary determinant of the rate of inflation. Every decade during which money growth crests is also a decade when the rate of inflation crests". This is presented as though it has something to do with cycles or the underlying model which it clearly does not. It follows from the quantity theory of money, as Batra must well know.

In a digression from his main argument Batra presents evidence that there is a recurrent cycle to the level of regulatory activity by the Federal government in the U.S. The regulatory peaks coincide with inflationary peaks and Batra suggests that perhaps "inflation is not only a monetary phenomenon but is also a regulatory phenomenon". Economic inefficiency generated by regulation restricts supply just as monetary expansion increases demand. This is an interesting if not entirely new

proposition upon which Batra could have expanded but he does not. In fact it plays no real role in his main argument.

The final link in his model is that in times of monetary expansion wealth become increasingly concentrated which has two pernicious effects: it increases the number of persons borrowing from banks with little or no collateral, thus putting the banks at greater risk; and it increases the volume of speculative investments made by the "acquisitor" who have cornered more wealth than can be productively invested. Thus, the whole structure of finance and banking become more and more shaky. The collapse occurs as a result of a surge of speculative manias which suddenly reveal the fragility of the financial system and causes a panic.

Historically, inflationary periods seem to come every three decades and a major crash every six decades, says Batra, and this to be explained by human nature. Three decades is about one generation and it takes that long for people to forget and make the same mistake again. "Each generation attempts to cure its economic ills through high money growth and regulation." The intensity of every other cycle (that is every 60 years) is greater because the concentration of wealth causing the collapse is wiped out by the crash and requires two generations to rebuild. We are now, Batra points out, coming to the 60 year mark since the last major crash of 1929.

This is Batra's "analysis" of why a collapse will occur: an inevitable downturn due to a social cycle which has given power to the acquisitive class who inflate the currency, engage in speculative investments, drive all other classes to penury, generally corrupt all values and cause a minor collapse every generation and a major financial collapse every two generations. His macro-economic prescriptions for preventing the collapse are a blend of utopian and conventional wisdom. The latter include raising taxes (including a federal property tax), greater restraint on banks and higher margin requirements in organized asset markets. The former include a radical redistribution of income and wealth, balanced federal budgets over the business cycle, a vigorous anti-trust policy and a people's capitalism with workers owning their companies.

At the micro level, on the assumption that the crash will occur, Batra offers some very specific "dos" and "don'ts" for his readers. These mostly boil down to staying as liquid as possible once the crash starts (1990-91) and reducing debt between now and then. Nothing on this list is particularly new or insightful. Many pessimistic investment newsletters have been peddling similar advice off and on for years.

In the end, what is one to make of this book which has been a best-seller, particularly in New York, and which has received highly favourable reviews in many major investment journals?

A few critical points can be noted. Firstly, quite frankly, the historical and anthropological "analysis" on which the Sarkar-Batra theory of social cycles purports to be based is rubbish. The notion that there exists everywhere in time and space,

four distinct kinds of mentalities who inevitably take on certain occupations and that these alternate in control of society in some predetermined pattern is insupportable and even faintly ludicrous. Batra asserts this but his efforts to support it by reference to European, Asian or Mesoamerican history are eclectic, distorted and frequently downright silly. They read like a bad very bad pop social science. All that is missing is Denker's prehistoric space travellers or the Atlantis legend. A few examples will suffice:

"In the labourer age there was hardly any marital life. Men and women lived together because of biological needs . . . Women enjoyed great respect in those time (p. 41); once society was organized into tribes . . . Women's burden in raising children declined to an extent and with this began the decline in her social status as well (p. 41); throughout the warrior era women continued to enjoy respect in society were regarded as man's helpmate, and commanded sufficient, if not, equal social prestige (p. 44)". "One distressing feature of the epoch of the acquisitor is that the acquisitive mentality eventually infects all sections of society . . . everything is commercialized as a result — music, art, literature, sports, crime also begins to flourish. . . family ties eroded, noblemen kept harems, divorce and prostitution increased." Batra provides no supporting references for any of those sweeping generalizations; in fact, it would be difficult for him to do so. (There are only a total of sixteen scholarly books or articles cited in the entire book not counting other books by Batra himself.)

Second, the core of his economic argument is that there is a cycle to money growth, regulation and inflation. This may well be right but so what? This guarantees nothing about a collapse and has nothing to do with warriors or labourers.

Third, his argument about the concentration of wealth is too weak for the weight he puts on it. Probably wealth has become more concentrated in recent years but the leap from that to speculative manias and financial fragility is all hyperbole. What about the profound changes in the structure of U.S. banking, the decontrol of international capital movements and the growth of the Eurodollar market? Are not these related to financial fragility? And why is the savings rate at all time low? The fragility is there but not because wicked people are running the economy.

Fourth, Batra provides no reason for the reader to accept the "inevitability" of social cycles. Most earlier cycle theorists invoked some exogenous force (sunspots affecting crops, periodic gold strikes, etc.) or some built-in structural process (multiplier-accelerator, inventory adjustments, etc.) to explain cyclical periodicity. These causes could legitimately be seen as natural or mechanical forces.

Putting "human nature" or arbitrary groupings of social classes into this category makes little sense.

Fifth, Batra argues that people should save more and stay liquid. He does not see evidently that if everyone took his advice the inevitable outcome would be just the type of financial collapse he fears. Incidentally, since he has no faith in the Fed's ability to control events it is not clear why he urges people to hoard currency when the crash comes. The currency will presumably become worthless would it not? The

“gold bugs” are at least consistent in their advice to avoid all paper assets. Thus, even his advice seems contradictory and dubious.

Finally, the reforms he advocates are good or bad, depending on one’s point of view but they seem to have nothing to do with the rest of the book. Perhaps they will repeal Sarkar’s law of social cycles, but if that is like the law of evolution, how can this be? When one examines any of his propositions they fall apart logically, or are based on dubious empirical foundations.

One’s main reaction to reading such a book is alarm at the notion that it has been read and taken seriously by men who have positions of trust and power in the financial world; and that is published by a reputable publisher and that an eminent MIT Professor lends his name to help sell copies of it. Perhaps there is more fragility (or venality) in US publishing and academic circles and less common sense in the financial world than is generally realized. If so these elements may cause a crash in 1990 but Sarkar’s theory of social cycles certainly will not.