

Missing: One LAND cycle!

CAN an economic depression happen again, asked Ravi Batra in 1985? It's a crass question, because no government has yet instituted the reforms that would smooth out the business cycle. So the interesting question relates to the timing of the depression.

Batra staked a considerable reputation on the claim to know when the US would dive into depression. He said it would happen in 1990. And as one of the super-stars of the American economic firmament, he ought to know; at any rate, that's what the public believed, because they turned his book into best seller.

Dr Batra, as professor of economics at Southern Methodist University, first made his name with books on the theory of international trade. Then he wrote *The Great Depression of 1990*. The claim that there would be another depression was nothing daring; but being able to date the event five years before it happened – that was something special.

He was wrong. Whatever happens between now and December 31, the US economy will not qualify as suffering from a depression.

BATRA'S book is a hotch-potch of Indian mysticism and economic theory, so it never stood a chance of predicting the next depression with precision. A critique of the philosophical elements of his theorising is pointless. Of interest for the debate it can provoke is the economic theory.

Batra believes that depressions are caused by the concentration of wealth into few hands: "Thus, while conventional wisdom may provide a theory of recession – that it is caused by a decline in aggregate demand – it lacks an adequate explanation for the surge of speculative manias that has always preceded an economic crisis. It also fails to explain the fragility of the banking system, which collapses to generate a financial panic.

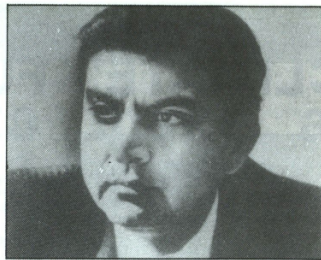
"Both these effects spring from high wealth disparity. Hence the real cause of great depressions in the past, or of depressions of any kind, was not faulty government policies but extreme inequality in the distribution of wealth. A depression, in a nutshell, is the result of a financial panic accompanying a recession."

Batra's analysis jumbles the concept of wealth with income. Example: he attributes the Great Depression of the 1920s to the reduction of taxes, which shifted income in favour of the rich. In fact, cutting taxes on the flow of income does not, of itself, create a lopsided economy that is ready to capsize.

What is important is how the money is spent. If it is attracted to speculation in land – which Batra recognises as a target for the feverish activity that tends to precede depressions – we have an explanation for depressions that is certainly the responsibility of governments, because it can be corrected by fiscal policy.

Batra's focus on the concentration of wealth is also problematic. Britain's current run-up to depression originated with speculation in land in the residential sector; and has enriched an increased number of people. That is not to say that the numbers of impoverished British people are not increasing, as well; they are, though the Thatcher government has clouded that problem by cooking the books.

More precise analytical tools are needed than those at



• Batra: A hotch-potch of doctrines

Batra's disposal. The void in his theory is symbolically expressed by the absence, from the index, of an entry for "land." Yet his book purports to be a study of cycles. He lists them all, from the Kuznets cycle to the Kondratieff long wave. But – given the importance of speculation in land, which he acknowledges in the text – where is the Hoyt cycle? Homer Hoyt discovered patterns of 18-year duration in the land market.

The cycle in land values is still a controversial one; but no more so than the epoch-spanning cycles favoured by Batra's Indian guru.

WHAT OF reforms to banish depressions forever? Batra advocates a federal property tax. This is an interesting proposal but one which he discredits with muddled thinking.

Example: he wants residential properties to be exempt from the tax. Yet speculation in house prices – viewing the property as an investment out of which to make capital gains, rather than as a home in which to raise children – is a damaging activity that could not occur without the connivance of millions of ordinary families.

Batra also recommends that banks ought to be banned from lending money for business takeovers. This betrays a prejudice that clouds the economic analysis; if adopted, the policy would be a sure way of freezing up the market economy! There is a qualitative difference between speculating in land – which hurts innocent people – and speculating, say, in junk bonds, which can only damage those who freely decide to take the risk.

"Every depression has been preceded by a speculative bubble in asset markets. But if there is no bubble, there can be no bursting, and hence no depression," insists Batra, in presenting his undifferentiated theory of wealth as a cause of depressions.

Recall the stock market bubble that burst in October 1987, which did not lead to a depression: it merely entailed a shift-around of zeros in the balance sheets of investors. When fortunes are apparently made from leveraged buy-outs, people's sensibilities may be offended.

But if investors end up losing a lot of money as a result of bad decisions, they are the only ones to suffer; there is no generalised consequence feeding through the economy. No-one else is prevented from exercising initiative, creating jobs, accumulating wealth.

It's when we turn to the land market – not property in general, but the land market – that we can begin to trace the dynamics of depressions. Henry George, the American social reformer, was the first to persuasively argue that speculation in land is the major cause of business depressions. Unfortunately, professional economists like Ravi Batra have yet to test this hypothesis scientifically.

There's much more fun – and profit – to be had from mysticism.

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