

J. Scott Armstrong, "Review of Ravi Batra, *The Great Depression of 1990* (Simon and Schuster, New York, 1985)," *International Journal of Forecasting*, 4 (1988) 493-502

The Great Depression of 1990 was on the *New York Times* best-seller list for non-fiction in the summer of 1987. It follows a standard formula for best sellers in forecasting: Forecast a great disaster, and include a formula for redemption. If the disaster occurs, you can say, "I told you so." If it doesn't occur, you say, "It is good that they listened to my advice. I saved them." How can you lose?

When I first saw this book, it occurred to me that it was a hoax. Here is a man claiming to be a highly respected economist who makes a forecast *and* provides a date. The forecast is that the great depression will occur in 1990. A variety of paths to redemption are provided, the most important being that rich people should have to give up much of their riches, for it is the concentration of wealth that causes business cycles. This is a fact that Batra claims to have discovered. Batra suggests that society should tax this wealth. On the other hand, he also provides advice to rich people on how to preserve their wealth – put it in cash, then store it in a safe deposit box and at home. Businessmen should avoid long-term investments.

The key concept of my review is methodological. Are the methods used in the book sound? Here are the methods:

- (1) The appeal to authority. Batra claims to be a leading economist. Lester Thurow, Dean of the Sloan School at MIT wrote an encouraging preface to the book.
- (2) History repeats itself. Regular economic cycles exist.
- (3) Logical deduction. The forecasts rest upon a theory developed by P.R. Sarkar.

Let's examine Batra's methods more closely (following the same numbering system):

(1) Authority: Historically, this has not proven to be a good basis for forecasting. Cerf and Navasky (1984) provide numerous examples where the experts were wrong. Armstrong (1980a) summarized the empirical evidence and concluded that experts are poor at forecasting change, but that they fulfill a social function. Thus, we have the seer-sucker theory: For every seer there is a sucker.

Batra claimed to be ranked third in a group of 46 "superstars" selected from all the economists at American and Canadian universities by the learned journal *Economic Inquiry*. In this paper (Bell and Seater, 1987), a superstar was any faculty member who published an average of at least one paper per year in one of the top economic journals from 1970-74. Batra was the third most prolific author among this list. In other words, he did have an impressive record using one of the most commonly used criteria for judging academic success. Another way to examine the fame of an academic is to examine his citation rate. Do other scientists refer to this work? According to the 1986 Annual *Social Science Citation Index*, Batra was cited 21 times. That is a good record, but certainly not in the superstar category. It can be said that he is the most cited of people named R. Batra (second place going to a recent graduate of Stanford who had 18 citations).

Lester Thurow wrote the introduction to the book when it was an obscure monograph with a different title. He claimed that the monograph was “a novel and brilliant exposition.” The current book is a revised version and Thurow was unhappy to be associated with it, according to the *New York Times* (August 30, 1987, p. 7).

Batra's predictions rely on a “theory” by P.R. Sarkar. The *New York Times* (August 30, 1987, p. 7) provides background on Sarkar. He is a cult figure in India who was convicted of six murders, a conviction that was overturned in 1978 after Indira Gandhi was voted from office. Many followers believe that Sarkar is the creator of the universe. Although he had not seen Sarkar since 1981, Dr. Batra is said to communicate with him through an ancient form of meditation called tantra.

(2) *Cycles*: Batra's evidence that history repeats itself begins with a graph of the money growth per decade in the U.S. from the 1770s to the 1970s. The rate of money growth reached a peak every three decades, with one exception (the period from the 1860s to the 1910s). According to Batra, this constitutes support for Sarkar's theory of a rhythmical cycle. While the observation is interesting, the sample size is small (only six cycles). Further research would have been useful. For example, if there is a regular cycle, it should show up if one changes the starting point and uses, say, 1965 to 1975, 1975 to 1885, etc., rather than 1960 to 1870. Also, it should show up using data from different countries.*

(3) *Logic*: There is a little empirical evidence to support the use of the word “theory” when describing Sarkar's ideas. Sarkar suggested that there are four types of people in the world: the warrior, the intellectual, the acquirer, and the physical laborer. Over time, leadership cycles from one of these groups to another, passing to all but the physical laborers, who are described as “lack[ing] the initiative, ambition, and drive to succeed in the world; seldom do they shine in society.” Batra fails to provide definitions of key terms, to show how such terms can be measured, or to carry out said measurements. For example, Batra says that laborers seldom shine. What is a laborer? How often is seldom? Is a laborer *defined* as someone who does not shine? And how does shining relate to the theory about economic depression?

There are other examples of poor logic. Here is one: “...since defense spending provides three major benefits - namely, the protection of life, liberty, and property - one-third of this expenditure should be borne by property.” (pp. 178-179).

Perhaps more important than the errors by Batra is what he did not do. He made no use of the extensive research on forecasting methodology. No citations were provided to this literature, and he seemed unaware of the research. For example, I evaluated Batra's method by using the Forecasting Audit Checklist (Armstrong, 1987). Seven of the 16 items were relevant (sample item: “Was more than one method used to obtain the forecast?”). Batra scored a zero on this checklist. In other words, his approach did not follow good practice in forecasting.

* For anyone interested in doing further work on this topic, Batra's reference to this work in the journal *Renaissance* seems to be incorrect. The University of Pennsylvania reference service was unable to locate this, and I was not able to obtain the reference by writing to Batra.

The book is clearly written. That proves to be a detriment in this case. The conclusions are not well supported. Some are useful (e.g., diversity) but others are potentially dangerous. If enough people follow Batra's advice, it may create a self-fulfilling prophecy.

I close with my own forecasts, strictly judgmental. Batra will become rich and wrong. Business cycles will continue to occur, and we will continue to do poorly at predicting their timing and magnitude. (After writing this, the market has crashed or has it?)

References

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