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## **Turbulent Times: A Deeper Understanding** **David A. Schwerin Ph.D.**

The economy is in chaos; suffering is widespread. If, according to Aristotle, “Happiness is the meaning and the purpose of life, the whole aim and end of human existence,” we are failing miserably.

Aristotle’s declaration may be a bit overstated; nonetheless, the search for happiness does drive most of our thoughts and behaviors. Unfortunately, the strategies we have devised to attain this state have been virtually ineffective. Examining some of these strategies is a first step toward formulating more successful ones in the future.

Early in our history, the strongest among us used brute force to take what they wanted. Understandably, the focus of our ancestors was on securing basic needs: food, clothing and shelter. Surviving for another day was the ultimate goal and consequences were not considered. In medieval times, conquest became the order of the day. As necessities became less scarce, kings and feudal warlords used authority and control to satisfy their craving for happiness. In modern industrial times the emphasis shifted to material wealth. Accumulating more things would lead to greater comfort and status and, therefore, to happiness. The satisfaction and pleasure resulting from these strategies were short-lived and generally unrewarding. At least as important, they failed to provide an ethical framework to guide human behavior.

Enron, WorldCom and numerous other supposedly reputable companies imploded precisely because many of their executives engaged in ethical misconduct. Today selfishness and negativity has become even more flagrant; wealth at any cost is the governing creed. As Thomas Friedman writes, “This financial meltdown involves a broad national breakdown in personal responsibility, government regulation and financial ethics.” (Thomas Friedman, “All Fall Down,” *The New York Times*, 26 November 2008.) Specific examples include: those who borrowed to the hilt to buy a house they couldn’t afford believing that the value of that home could only go up, mortgage brokers who pushed confusing mortgages on unsophisticated home buyers and made a fortune, financial rating agencies who assigned inflated ratings to securitized mortgages to rake

in exorbitant fees and financial institutions which invested in risky investments to earn high returns using other people's money. Now irresponsible executives are pleading for government bailouts. While screaming for help, these same executives are collecting outrageous bonuses that were promised when company earnings and stock prices were precariously inflated.

This demoralizing progression of imprudence and impropriety is not confined to one country or culture. Below are a few examples of irresponsible or unethical conduct undertaken by individuals, business executives or government leaders from around the world over the last year.

Dubai had to be bailed out by its oil-rich neighbor Abu Dhabi as the economic downturn put a halt to its overbuilding, financial wheeling and dealing and extravagant life style.

The chairman of one of India's largest technology companies falsified key financial results, including a fictional cash balance of over \$1 billion, sending shock waves across India. The news prompted concerns about corporate governance and accountability throughout the Indian investment community.

South Korean households' interest payments are now a larger share of family income than they are in the U.S. or Japan. With the ratio of interest payments to disposable income having risen 50% over the last 5 years, consumer spending in South Korea is stifled.

Siemens, the giant German conglomerate, agreed to pay over \$1.5 billion in fines to U.S. and German authorities to settle bribery charges. The \$800 million owed to U.S. regulators is the largest penalty ever imposed under the Foreign Corrupt Practices Act.

Investors are shocked to learn of a giant Ponzi scheme run by Bernard Madoff, a former chairman of NASDAQ. The multibillion dollar fraud hit investors around the world with financial institutions in Europe estimating at least \$10 billion in exposure.

The biggest banking collapse in history, relative to the size of an economy, rattled Iceland. Iceland's three main banks failed after making loans equivalent to nine times the size of its previously booming economy.

Russia's wealthiest businessmen sought government help to bail them out of over \$100 billion in loans that are coming due in an economic environment that makes refinancing their bank loans virtually impossible.

### **The Crux of the Problem – The Conventional View**

The unrelenting demand for instant gratification, fueled by excessive debt and imprudent risks, seems to be at the root of today's turbulence. Living beyond one's means to accumulate as many things as possible as soon as possible, has not led to happiness but rather to its opposite – heightened stress and related illnesses for individuals, and a dangerous slide into economic disaster for society. Workplaces are plagued by lying, cheating, sexual harassment and bullying. The gap between rich and poor grows wider; environmental degradation proliferates. We have become

numb to the recurring headlines of corruption and abuse; unethical behavior is blatantly ignored or quietly condoned. The financial effects of such behavior are well documented but the personal costs to society – anxiety, depression and addictions to name a few – are generally unrecognized.

One of the most chilling effects is that young people feel they need to cheat and steal to achieve the rewards they believe they need and are entitled to have. Michael Josephson, the founder and president of The Josephson Institute, a Los Angeles ethics institute, was dismayed when a recent survey they conducted found 30% of U.S. high school students acknowledged stealing from a store within the last year. In addition, 64% of the 30,000 students surveyed admitted to cheating on a test; when confronted with an offense, 83% lied about it. Asked Josephson, “What is the social cost of that – not to mention the implication for the next generation of mortgage brokers? In a society drenched with cynicism, young people can look at it and say, ‘Why shouldn’t we? Everyone else does it.’” (David Crary, “Survey: An ‘F’ for Ethics,” *Philadelphia Inquirer*, 1 December 2008.)

### **Troubling Trends**

The Ethics Resource Center found that economic turmoil magnifies misconduct. Employees may steal from their employers to cope with financial difficulties at home or in anticipation of losing their jobs. Many people who think they are being treated unfairly seem to believe they have a right to disobey the rules. Blaming others seems easier than taking personal responsibility for problems that we have collectively created. It is likely that we are headed into the worst economic downturn since the great depression. The outcome could be a growing cadre of disgruntled, angry people who will do anything to get what they want as they watch their treasured dreams recede from their reach.

Even more ominous is the possibility that politicians will use the economic crisis as an excuse for delaying badly needed environmental regulations and reforms. For example, government leaders may be tempted to ignore the need to protect forests when companies complain such action will cost jobs and reduce government revenue. Deforestation is increasing in Asia to make way for the economic benefits of agriculture and urbanization. By some estimates, however, global deforestation contributes around 20 percent of the world’s CO<sub>2</sub> emissions which directly affects climate change. There are many who believe that climate change has increased the incidence of cyclones and flooding that has ravaged countries from Bangladesh to China and Indonesia to Thailand in recent years. No one wants increased landslides, droughts, water pollution and related diseases but it is very tempting to ignore long-term consequences when faced with an immediate crisis. Political leaders must fight the tendency to engage in short-term thinking which can lead to long-term problems.

### **Reexamining the Problem – A More Discerning View**

The fact that government, business and consumer debt simultaneously reached unsustainable levels has turned a serious problem into a crisis. This debt was incurred to acquire the possessions we needed to make us happy even if we couldn’t afford them. The deeper cause, however, is a distorted belief about what makes us happy. Fifty years of research has shown that once basic needs are met – food, clothing, shelter – additional material possessions add little if anything to

our happiness. There may be a fleeting, superficial sense of euphoria from acquiring a new house or car but the excitement soon fades and is replaced by worries about being able to make the upcoming mortgage payments or protect the car from theft and vandalism. Nonetheless, the psychological and emotional connection between more things and greater happiness is so strong that we continue to engage in selfish, shortsighted activities to get the things that, we have been led to believe, will make us happy.

According to Anthony de Mello, a Jesuit priest and psychotherapist, “There is only one cause of unhappiness: the false beliefs you have in your head, beliefs so widespread, so commonly held, that it never occurs to you to question them.”

Why do we continue to believe – in the face of compelling evidence to the contrary – that money equals happiness? Neo-classical economics is a widely taught and broadly accepted theory about how the economy works. According to this theory, rising production and the resulting consumption leads to “increasing marginal utility.” In practical terms, this means that our economic system encourages us to produce and consume more and more because that will make us happy. Gross Domestic Product (GDP), a compilation of a country’s total output of goods and services over a specified period, is the measurement used to gauge the performance of the economy and, by extension, society’s level of satisfaction or happiness. This connection between wealth and well-being was quietly challenged over three decades ago by the tiny country of Bhutan, sandwiched between China and India. Rather than making economic growth the ultimate goal, Bhutan targets Gross Domestic Happiness (GDH) as the best measure of the country’s well-being. Jigmi Y. Thinley, Bhutan’s democratically-elected prime minister, eliminates quickly passing pleasures from his definition of happiness. Bhutan’s focus is on balancing the material needs of the body with the spiritual needs of the mind. When these complement and reinforce one another, the society and its citizens develop to their fullest potential. The four components of GDH are: equitable and sustainable socio-economic development, preservation and promotion of cultural values, conservation of the eco-system and establishment of an accountable and transparent system of governance. In other words, an ethical society founded on the principles of honesty, fairness and sustainability. Mr. Thinley acknowledges that government can only create the preconditions for the pursuit of happiness. Individual citizens must do their part – live a balanced, principled life – if peace and contentment are to be realized.

Skeptics will undoubtedly consider the GDH approach impracticable if not fanciful. Maybe; but what we do know is that high levels of consumption haven’t exactly led to nirvana. Personal income in the United States has climbed steadily over the past five decades and per capita GDP has tripled. Yet measures of life satisfaction in the U.S. have been virtually flat. Not only have measures of well-being failed to keep pace with increases in wealth, but rates of anxiety and depression have increased dramatically. A similar pattern can be found in Japan, Europe and many other societies. Compare that with a 2007 study that ranked Bhutan’s level of well-being at 8 out of 178 countries despite its anemic Gross Domestic Product. A growing audience is beginning to see the wisdom of using some type of GDH measurement to determine a country’s level of well-being. For the last four years individuals and organizations from many countries have held international conferences in Bhutan, Canada and Thailand to discuss the ramifications and practicality of adopting Gross Domestic Happiness measurements.

They recognize that our current emphasis on materialism has distorted our values and priorities. The resulting unease and confusion has not only deprived us of the happiness we seek but created stressful relationships, physical and psychological illness and, to a regrettable degree, a morally corrupt way of life. We need a new world view; a holistic vision that integrates all aspects of our physical, emotional, mental and spiritual life. There is nothing wrong with money or the things it can buy as long as they are acquired in an ethical manner and with no illusion that their acquisition will have much, if any, affect on our long term happiness. Furthermore, it must be remembered that wealth is of no value if it comes at the cost of our personal health or that of the planet.

### **Solutions - Real and False**

Current attempts to solve our economic crisis are misconceived and misdirected. Enlarging government deficits when debt loads are already too high or encouraging consumers to spend more when their budgets are badly extended may have a short-term stimulative effect but is bound to have undesirable consequences. Since beliefs determine behavior, we must examine our beliefs before embarking on a new course of action. Of crucial importance are the beliefs that established our view of self-interest. When we misunderstand what's truly in our self-interest, we sow the seeds of discontent and conflict leading to a largely unsatisfying, meaningless life.

Regulators, such as former Federal Reserve Board Chairman Alan Greenspan, thought market forces and self-interest would ensure prudent economic behavior. According to Greenspan, "I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders." (Alan Beattie and James Politi, "I Made a Mistake,' Admits Greenspan," *Financial Times*, 23 October 2008). An inaccurate view of self-interest has left new home buyers struggling to meet payments on houses that are declining in value. The self-serving real estate agent finds his job in jeopardy and mortgage and stock brokers are struggling to earn a fraction of their former income. And Mr. Greenspan has had his reputation sullied and his ego badly bruised. All because of a misunderstanding of what truly serves our self-interest. Defining self-interest from an inclusive, long-term point of view is nothing more than acknowledging the way everything is indelibly linked together. As I state in my book, *Conscious Globalism*, "The remedy is to raise consciousness so we recognize our interconnectedness and align our self-interest with the common good." [David A. Schwerin, *Conscious Globalism: What's wrong with the world and how to fix it*, (Ambler, PA: Digital Junction Press, 2005), 254]

Approaching our problems from a systems perspective – focusing on the big picture and recognizing the interdependent nature of everything – results in a totally different view of self-interest. This view echoes the sentiment expressed in the "golden rule" as articulated by all major philosophies and cultures. The wise have always counseled that living a responsible, ethical life is an essential first step if we are to achieve our deepest longings. Selfish conduct is unethical; living beyond one's means is short-sighted and irresponsible. Such behavior elicits guilt which will lower self respect and makes people feel undeserving of the happiness they long for. Thoughts of unworthiness generate states of unhappiness.

The turmoil that began in 2008 will have a profound effect on every aspect of our life and challenge our beliefs and behaviors in the most fundamental way. Actions have consequences and a price must be paid for reckless self-indulgence. When the pendulum swings to an extreme in one direction it must move to the opposite extreme before stability can be achieved. Debt in the form of mortgage and consumer loans and business borrowings of all types moved out of line with the ability of all parties to pay off the debt. Assets (house and stock prices) and liabilities (borrowed money) will have to contract until a financially viable equilibrium is achieved. This will take years and will present many difficult tests. Prior warnings – the leveraged buyout craze of the 1980s, the Asian financial meltdown in the 1990s, the business scandals at the turn of the century – were only superficially addressed. The underlying beliefs that encouraged excessive indebtedness and morally reprehensible conduct were not properly identified or fully corrected. Ingrained habits are maintained because we fear the unknown and don't realize the status quo no longer works. We are well past the point where making incremental adjustments will produce satisfactory results. Every delay magnifies the problems and makes the required changes harder to achieve.

### **Pragmatic Idealism**

Extensive research supports the view that ethical business practices produce practical benefits. More specifically, a series of experiments reported in the *Wall Street Journal* (12 May 2008) concluded that consumers were willing to pay more for ethically made products. Patronizing responsible businesses makes people feel good, thereby enhancing self respect. Comparing only the actual price of a product, however, can be deceptive; an unethical society produces many hidden costs. Inferior goods and services, intrusive surveillance and computer monitoring, drug tests and security guards and significant environmental clean-up all generate costs that harm society dearly. Simple common sense reveals the value of responsible business practices. Employees, customers and suppliers that are treated honestly and fairly are more productive and loyal. Companies whose policies respect the community get more cooperation and face less onerous regulations and lawsuits. Sustainable environmental policies result in less costly and more abundant natural resources. An enterprise's long term prosperity is enhanced when all stakeholders are treated properly. The result – higher returns for investors. An interconnected worldview and expanded definition of self-interest really works!

Policies aimed at job creation are important but not enough. Despite recent high levels of employment, too much of our work was focused on self-gratification and greed. Building sustainable prosperity requires significant changes in our thinking and behavior. It is time political leaders were honest about the promises they make but fail to fund adequately. It is time business leaders stopped taking imprudent risks and rewarding themselves with extravagant compensation. It is time individuals ceased their unsustainable consumption and became more respectful of our fragile ecosystem. World leaders must use their positions to promote the virtues of honesty, equity and sustainability. These qualities are in our self interest; without them a happy, fulfilled life is impossible. In an interconnected world people must trust one another; ethical conduct and personal responsibility are essential. Only then will health and happiness become a fact of life rather than an unrealistic fantasy.