Gross National Happiness: Towards a New Paradigm in Economics

SANDER G. TIDEMAN

Introduction

The notion of Gross National Happiness (GNH) – as first conceived by the King of Bhutan - presents a radical paradigm shift in development economics and social theory. GNH can be regarded as the Buddhist equivalent to Gross National Product (GNP), which is the conventional indicator for a nation’s economic performance. But GNH can also be regarded as the next evolution in indicators for sustainable development, going beyond measuring merely material values such as production and consumption, but instead incorporating all values relevant to life on this planet, including the most subtle and profound: happiness.

The definition of happiness needs further clarification. In the Buddhist view, which generally corresponds to those of other spiritual traditions, happiness is not simply sensory pleasure, derived from physical comfort. Rather, happiness is an innate state of mind which can be cultivated through spiritual practice, overcoming mental and emotional states which induce suffering. In the Buddhist tradition this is a path of ‘liberation’; other spiritual traditions call it self-transformation. This definition of happiness is absent from conventional western sciences, on which modern economic theory is based. In fact, conventional economics and its indicators such as GNP, deliberately leave human happiness outside its spectrum, tacitly assuming that material development, as measured by GNP growth, is positively correlated to human well-being. Further analysis of the relationship between material development and human psychology has been outside the scope of economic and social theory.

Yet this is changing: breakthrough research - in quantum physics, medicine, biology, behavioral science, psychology and cognitive science - is now making the science of the mind relevant to economics. Conversely, as the current discussion on GNH indicates, from within the profession of economics, attempts are made to broaden the scope of economics into the domain of psychology.

While this allows us to find a common basis for GDP and GNH, it is important to note that this change constitutes a paradigm shift in our thinking. GNP and GNH are rooted in very different (and even opposing) views we have of the world and ourselves. Once we recognize this, we can embark on a coherent journey finding the possible content and meaning of GNH. So let’s first review the foundations of GNH and GNP, respectively.
Buddhism

Buddhism is based on teachings of Gautama Buddha who lived 2500 years ago in ancient India. One of his key teachings is that suffering is caused by the way we perceive things and ourselves. Things appear to us as if they have the ability to provide us lasting happiness and comfort, so we become attached to them and we develop desire for them. But this craving is a result of ignorance about reality. The reality of things is that they are transient, impermanent, and therefore cannot produce the lasting happiness that we expect from them.

Buddhism does not reject matter and wealth as inherently evil, but considers them useful. First, material wealth prevents us from poverty and, second, it allows us to practice generosity; which causes ‘merit’ or positive karma, and a more happy society for all. Thus, “right livelihood” is one of the eight main requirements of the Buddha’s path, which has been defined as follows:

One should abstain from making one’s living through a profession that brings harm to others, such as trading in arms and lethal weapons, intoxicating drinks, poisons, killing animals, cheating etc., and one should live by a profession which is honorable, blameless and innocent of harm to others.¹

A true Buddhist person not only seeks wealth lawfully and spends it for the good, but also enjoys spiritual freedom. The Buddhist Pali canon states that such person acts as follows²:

Seeking wealth lawfully and unarbitrarily
Making oneself happy and cheerful
Sharing with others and doing meritorious deeds
Making use of one’s wealth without greed and longing, possess of the insight that sustains spiritual freedom

These Buddhist principles provided the ground for some 21st century authors to define the concept of Buddhist economics³. But Buddha himself

¹ See Walpola Rahula, What The Buddha Taught, the Gordon Fraser Gallery, London, 1959
³ Economist E. F. Schumacher is believed to be the first to use the term “Buddhist economics” as title of a far sighted essay, included in his Small is Beautiful; Economics as if People Mattered, Harper & Row, 1973, which became a landmark book for alternative economics (see also below). More recent work on this theme is from P.A. Payutto, Buddhist Economics; A Middle Way of the Market Place, Bangkok, 1992, Salak Sivaraksa in Global Healing, Thai Inter-Religious Commission for Development, 1998, David Bubna-Litic in Buddhism Returns to the Market Place (in Contemporary Buddhist Ethics, ed. Damien Keown, Curzon 2000) and David Loy: The Great Awakening; Buddhist Social Theory (Wisdom Publications 2003).
made it very clear: real happiness does not come from acquiring or consuming material things. Happiness is essentially a state of mind or consciousness, and mind/consciousness is distinct from matter. Thus, Buddhism considers the path of mental or spiritual development superior to that of material development. What really matters is to psychologically detach oneself from matter, and strive for liberation and enlightenment, which is considered the ultimate state of happiness and fulfillment. This is achieved by the cultivation of values within one’s mind, such as insight, compassion, tolerance and detachment. Only this will bring true happiness, both for the individual and society.

Economics

Economics has its roots in ancient Greece (the term is derived from ‘oikonomikos’, literally meaning ‘Household Management’), and now is commonly defined as ‘a science which studies human behavior as a relationship between ends and scarce means which alternative uses’. In this discussion, it is important to note that economics defines ends and means primarily in material terms, which moreover can be quantified in monetary terms. Immaterial and non monetary values are considered subjective and therefore outside its scope. Further, by stating that economic means are naturally limited and scarce, economic theory accepts a natural element of competition for these resources.

Economic textbooks talk of economic laws assuming man naturally competes for scarce and limited material resources. Happy is the man who is able to consume these resources, unhappy is the one who is not. Classical economics tell us that it makes no sense to exert time, effort or expense on maintaining values, if money can be made by ignoring them. Intangibles don’t count.

One of the great economists of our time, Lord Keynes, wrote in 1930 that the time that everybody would be rich was not yet there: "For at least another hundred years we must pretend to ourselves and everyone else that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight". In Keynesian thought, which had a large effect on economists for much of the

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4 See for the Buddhist definition of happiness, e.g. the Dalai Lama and Howard C. Cutler, the Art of Happiness, Coronet Books, UK, 1998
6 Many believe economic theory to be free from subjective values, as a ‘pure’ science should be. However, this is increasingly contested. Mahatma Gandhi observed that nothing in history has been so disgraceful to human intellect as the acceptance among us of the common doctrines of economics – as a science. A small group of economists including Barbara Ward, Kenneth Boulding, E.F. Schumacher, Gunnar Myrdal, Hazel Henderson, always stressed that economics is not a science.
7 quoted in Small is Beautiful, Economics as if People Mattered – see note 6
last century, ethical considerations are not merely irrelevant, and they are an actual hindrance.

The assumptions underlying the so-called "economic laws" were developed at a time when religion was being separated from science, the accepted worldview became secularized, and the sacred was substituted by belief in matter. Economic theory was affected by great scientific discoveries in physics, biology and psychology, and economic laws were presented with the same authority as laws of nature. Newton and Descartes described reality in terms of a more or less fixed number of “building blocks”, of “things”, subject to measurable laws such as gravity and, put together smartly, operating like a big machine. The world of matter was regarded as a mere machine, to be used by man, his reason and free will.

Darwin had described human beings as a relatively intelligent species evolved from primitive apes motivated by lusts and aggression (as Freud would confirm later in psychology). Our intelligence has taught us to behave socially, but fundamentally we are selfish beings subject to the law of "survival of the fittest".

When Adam Smith, in his famous work *The Wealth of Nations*, introduced the "invisible hand" of the market, by which the things and building blocks can be exchanged efficiently on the basis of each individual's self interest, we extended these laws into the realm of economics. 19th century economists such as Malthus and Ricardo, added the notion that economies are closed systems, bound by fixed quantities of material goods. No matter how large economies become, they remain closed, thus limited. This has led to an important premise underlying classical economics: scarcity is a natural state. Hence it is believed that competition for scarce resources, or even war, is natural too. We forgot that Adam Smith wrote in his earlier work *The Theory of Moral Sentiments* that markets could not function without ethics and morals. We have come to believe that greed and selfishness is what economies are all about.

Economist E.F. Schumacher observed in his landmark book "Small is Beautiful" that the idea of competition, natural selection and the survival of the fittest, which purports to explain the natural and automatic process of evolution and development, still dominates the minds of educated people today. Schumacher argues that

> These ideas, combined with the belief in positivism, have wrongly been given universal validity. They simply do not stand up to factual verification. But since they conveniently relieved us from responsibility - we could blame our immoral behavior on "instincts" - these ideas have retained a prominent place in the consciousness of modern man.

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In fact, over the last two centuries we have firmly enshrined these principles in our capitalist legal systems, domestically and internationally. For example, the international laws governing the main multilateral agency for international trade, the World Trade Organization (WTO), are based on Ricardo's concept of "comparative advantage", the idea that nations, by specializing yet keeping our borders open, will benefit from unfettered competition. This arose from 17th century Europe which had invented the nation state to better deal with the opportunities provided by colonialist expansion.

Likewise, with the emergence of the nation state, monetary systems and policies were developed based on the notion of scarce money supply, linked to gold and silver, the value of which was controlled by the nation. The artificial measurement of money scarcity, when the churches relaxed their restrictions on interest bearing lending (considered 'usury' for many centuries), introduced an official element of competition among those in need of funding. In contrast, those with money could set rules on how the scarce resources should be invested. These rules, now enshrined in corporate and banking law (and forming the basis of what we know as 'capitalism'), favor those with wealth over those who have not. These 'have nots', the vast majority, have been locked in a competitive cycle for scarce capital ever since. When a competitor achieves a monopoly, he is punished under anti-trust laws, for competition must go on. The judge in the antitrust case against Microsoft ruled that the firm's monopoly had done "violence to the competitive process". In our modern society we take it for granted, and in fact consider it healthy, that competition has become a structural feature of our societies.

What do We Measure?

At the same time we have developed indicators to measure the well-being of our society in terms of economic growth. Inspired by the mathematical approach of the natural sciences, we have chosen indicators which measure things that can be quantified by assigning monetary weightings. Thus, they exclude qualitative distinctions. Yet over the last decades it has appeared that it are exactly the qualitative factors that are crucial to our understanding the ecological, social and psychological dimensions of economic activity. For example, economic calculations ignore the value of things such as fresh water, green forests, clean air, traditional

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9 All major religions discouraged or prohibited interest on lending, as it was considered unethical to earn money on money, by unproductive means. Islam retains its laws against interest on money into the present day.
11 The Economist, April 8, 2000
ways of life, to name but a few – simply because they cannot be easily quantified. This partial blindness of our current economic system is increasingly recognized as the most important force behind the accelerating destruction of the global environment.

The most basic measure of a nation’s economic performance, is called Gross National Product (GNP) calculated as on the basis of all quantifiable economic transactions recorded in a given period. Governments want to see this grow each year. Yet GNP statistics are inherently flawed. In calculating GNP, natural resources are not depreciated as they are being exploited. Buildings and factories are depreciated, as well as machinery, equipment, trucks and cars. Why are forests not depreciated after irresponsible logging and farming methods turn them into barren slopes causing erosion and landslides? The money received from the sale of logs is counted as part of the country’s income for the year. Further, the national statistics would show that the country has gone richer for cleaning up landslides. The funds spent on the chain-saws and logging trucks will be entered on the expense side of the project’s accounts, but those to be spent on the supposed replanting will not. Nowhere in the calculations of this countries GNP will be an entry reflecting the distressing reality that millions of trees are gone forever.

Aside from the environment, traditional GNP calculations ignore the informal, unpaid economy of caring, sharing, nurturing of the young, volunteering and mutual aid. This informal “Compassionate Economy” is hidden from economist’s statistics and therefore public view, yet it represents some fifty percent of all productive work and exchange in all societies. In developing countries, these traditional non-money sectors often predominate. Indeed, the United Nations Human Development Report in 1995 estimated such voluntary work and cooperative exchange at $16 trillion, which is simply missing from the world’s GNP statistics.

Classical economics holds that all participants in the market between supply and demand have ‘perfect information’ about the facts on which they base their choices. This is another assumption that has proven to be incorrect, especially in light of the buyer’s inability to ascertain to what extent a product has depleted natural resources or exploited labor. Our current economic system not only makes unrealistic assumptions about the information available to real people in the real world; it also assumes incorrectly that natural resources are limitless ‘free good’ failing to distinguish between renewable and non renewable goods and simply equating them on the basis of monetary values set by a supposedly ‘informed’ market.

Our system also fails to account for all the associated costs of what is called consumption. Every time we consume something, some sort of waste

\[12\text{ Quoted by Hazel Henderson in Beyond Globalization; Shaping a Sustainable Global Economy, Kumarian Press, USA, 1999.}\]
is created, but these costs are usually overlooked and externalized. For instance, for all the fuel we consume in a given day, we do not account for extra CO2 emission in the atmosphere. Since we equate an increase in consumption with an increase in ‘standard of living’, we encourage ourselves to produce more and more, and also more waste. This has led to the disturbing reality that those countries which are considered richest, produce the most waste.

Discounting the Future

Our national accounting standards also contain questionable assumptions about what is valuable in the future as opposed to the present. In particular, the standard discount rate that assesses cash-flows resulting from the use or development of natural resources assumes that all resources belong totally to the present generation. As a result, any value that they may have to future generations is heavily discounted when compared to the value of using them up now. Likewise, by discounting the future value of money on the basis of interest rates, we have accepted that a dollar spent today is more valuable than a dollar spent tomorrow. This has not only caused a dangerous short-term mentality among fund managers who control increasing amounts of investment funds which can be moved from one country to another at the speed of online digital communication. It also provided a whirlpool-like force behind the expansion of our financial markets, which have come to grow to such an extent that national authorities can no longer control them.

The financial markets, in particular, with the daily turnover of more than US$ 1.5 trillion on foreign currency markets worldwide, are now setting the pace for continued growth and expansion. Money should be moved in order to make more money. Short term rewards are more important than long term, sustainable investments. An increase in stock prices are equated with economic success, and conversely, a drop is regarded as an economic failure with immediate divestment as a result. This has had already disastrous results, as is shown by the repeated crashes of emerging markets, the internet bubble and recent corporate scandals such as Enron. Many have blamed this entirely on weak and ineffective governance, while only few recognize that the global system itself is at fault. It should, of course, be quite obvious that preoccupation with growth in a finite environment leads to disaster, but the supertanker of short term capitalism seems unstoppable.

By concentrating on the mere statistics of monetary indicators, we fail to distinguish between the qualitative aspects of growth; healthy or unhealthy growth, temporary or sustainable growth. We do not question what growth is actually needed, what is required to actually improve the quality of our life.
Recognizing this dilemma, and out of concern for the rapid depletion of natural resources caused by economic development, the concept of ‘sustainable development’ has emerged. The 1987 report by the World Commission on Environment and Development, *Our Common Future*, spread and popularized the term ‘sustainable development’, which it defined as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”. This concept became a focus of national attention after the UN conference on Environment and Development (UNCED) in Rio de Janeiro, 1992. Rio’s *Agenda 21* commits all 178 signatory countries to expand their national statistical accounts by including both environmental factors and unpaid work.

However, more than a decade later, only very few of these countries have been able to live up to their commitments. National *Agenda 21* efforts have led to academic debates, heightened public awareness and minor adjustments in the SNA and taxation rules, but it has not fundamentally altered the way we manage and measure our national economy. National political agenda’s continue to be determined by interest groups dominated by commerce and industry who are locked on old paradigms, while in the meantime the power of national authorities and national democratic institutions have been gradually eroded by the globalization of industry, finance, technology and information.

**Faith in the Market**

Ironically, coinciding with the emergence of the sustainable development movement, mainstream political and economic leadership has embraced free market capitalism as a golden formula. Particularly since the 1980-ies, with the demise of socialism and the promising allure of globalization, we have come to see the competitive market process as sacred. The bodies that rule our global economy today, the G7 (the world’s industrialized countries), IMF and the World Bank (together known as the ‘Washington consensus’) prescribe the world a neoclassical recipe of privatization, decentralization and market reform, assuming that our common interests are best served by the invisible hand of the market.

Critics of this faith are generally silenced by powerful arguments. They are told that government interference in markets will only lead to inefficient wasteful government bureaucracies. They claim that history has shown that the libertarian or laissez faire approach will allow markets to increase wealth, promote innovation and optimize production - and to regulate itself flawlessly at the same time. The fact that humans persist in behaving "irrationally and uneconomically" according to the market model, far from

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invalidates the model, they say; we simply have not yet learned to appreciate the benefits of competition. Some economists, trying to account for "irrational" religious commitments, such as voluntary gifts or abstention from consumption, even introduced a new economic factor - "afterlife consumption".15

As Robert Kuttner points out in "Everything for Sale":

> Trust in the unfettered market place, enshrined in politics by Ronald Reagan's 1980 victory and by the clarion call for less government interference in people's lives, is undiminished to this day. Dissenting voices have been drowned out by a stream of circular arguments and complex mathematical models that ignore the real-world conditions and disregard values and pursuits that can't easily be turned into commodities. These values and pursuits happen to be ones that most of us consider integral to our identity: justice, freedom, worship, leisure, family, charity and love.16

Yet it is increasingly clear that our economies are inherently flawed. While substantial wealth is generated mostly by a minority elite in developed countries, the majority of the world population remains poor. The gap between rich and poor keeps growing in all societies, and also among countries in the world. Environmental degradation seems irreversible. Drugs and new forms of slave trade prosper. Corruption and corporate fraud is widespread. Stock markets are turning into global casinos. War is increasingly 'economic', motivated by either the lack or the protection of wealth. Even if the global economy prospers, it seems to prosper at the expense of the air, earth, water, our health and our rights to employment.

So we have to revisit the assumptions that underlie all this. Are the economic laws really uncontrollable? Spiritual teachings tell us that we make up reality, so likewise it must be us who make up the economy. For better or for worse, economies and business don't function separately from our decisions, since without us they wouldn't exist. So if we want a better economy we have to look deeply at who we are and how we live.

**Spiritual Views Rediscovered**

Buddhism and in fact all spiritual traditions have long described reality in rather different terms than traditional economic theory. While the latter are primarily concerned with a fragment of human behavior, namely "economic" actions defined as those which can be quantified in terms of money, the former approach reality holistically, incorporating all actions -

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15 Corri Azzi and Ronald Ehrenberg, quoted in Robert Kuttner, *Everything for Sale*, see note 16
and even thoughts - that make up our being and society. While Newton, Descartes and classical economics define the world in things, of separate building blocks, spiritual teachings point out there is really no independent thing there, and that the focus on things will miss the relations and the whole context that make the thing possible. In economic textbooks human beings are isolated consumers and producers interacting at markets driven by monetary gains. In spiritual traditions humans are viewed as being part of a larger whole with which they can communicate by opening up their hearts and minds.

This holistic viewpoint is lent credence by modern physics, which postulate that the universe consists of unified patterns of energy. According to one of Einstein’s favorite epigrams, the field generates the object, not vice verse. That is, whole systems give rise to specific things, not the other way around. While in the Cartesian worldview we can only know reality by knowing specific parts, Einstein discovered that in order to know things, we need to know the whole from which they originate. In other words, we are not isolated hard and fast physical things but more like “light beings” or “energy-flows” continuously interrelating and changing. Thus, we are more like “intangibles” - exactly that which cannot be measured in classic economic models.

The new understanding of reality is a systemic understanding, which means that it is based not only on the analysis of material structures, but also on the analysis of patterns of relationships among these structures and of the specific processes underlying their formation. This is evident not only in modern physics, but also in biology, psychology and social sciences. The understanding of modern biology is that the process of life essentially is the spontaneous and self-organizing emergence of new order, which is the basis of life’s inherent abundance and creativity. Moreover, the life processes are associated with the cognitive dimension of life, and the emergence of new order includes the emergence of language and consciousness.

Most economic strategies are built around the possession of material things such as land, labor and capital. What counts is how much real estate we own, how much money we have and how many hours we work. The ideal for many people is to own enough land and capital, so we don’t have to sell our time. This strategy, which no doubt will be recognized by many of us in developed countries, is based on the assumption that land, labor and capital is all there is, that the real world is a closed end system. Spiritual traditions and modern sciences claim the opposite. They recognize the unlimited potential in every sentient being - the potential to be whole and enlightened. Our minds create and pervade everything, hence physical reality is open for the spiritual.

The concept of scarcity has also been refuted by modern discoveries. Nuclear energy is based on breaking the seemingly closed-end system of the atom and the universe has been found to continuously expand. Like the
expanding limits of outer space, the modern business of cyber space and Internet, has created unexpected opportunities and amounts of new wealth. Another example, while being rightfully concerned about the limited availability of the planet's fossil fuel deposits, there is no shortage of energy in our solar system. In fact, we are surrounded by abundant energy sources: sun and wind, as well as the earth's heat, motion and magnetism. But most renewable energy resources are not available to us, not because they don't exits, but because we don't have the know how to tap them.

The key in the modern knowledge economy is that what counts here is not merely material possession, but know how and creativity, the domain of the mind17. As many of the new e-commerce companies have found out, a company cannot "own" the knowledge that resides in the heads of the employees. Research has shown that most successful business strategies focus less on things but more on how to manage them. It is commonly accepted that all technical and social innovation is based on what is now phrased as 'intellectual capital'. And unlike ordinary capital, intellectual capital is not subject to physical limits.

So what does all this tell us? Clearly, the 19th century mechanistic 'matter only' worldview has been turned on its head. And thus we should revise long held axioms. First, the traditional concept that we are simply competitive beings chasing scarce material resources is incorrect. Second, intangible values are equally important for our well-being. These intangibles are stored in the mind, free from physical constraints and therefore potentially of unlimited supply. Third, happiness is not merely determined by what we have, how much we consume, but also by what we know, how we can manage and how we can be creative, ultimately by who we are - so not by having, but by being. We are human beings after all.

How do we measure this reality? How do we account for 'self generation', 'spontaneity' and 'consciousness' in our economic worldview? Deterministic logic is no longer sufficient. New ways of measuring are required to embrace this new reality.

Human Nature and Motivation

Before we can move there, let us first examine this 'being' side of our existence. What kind of beings are we? Happy or unhappy? Altruistic or selfish? Compassionate or competitive? Modest or greedy? Driven to seek short term pleasure, or seeking meaning, a higher purpose, a longer term state of happiness? These are important questions on which economic theory and spiritual traditions hold different views.

Economists have accepted the principles of selfish individualism: the more the individual consumes, the better off he will be. And he consumes

17 Economists estimate that around 80% of a company's value is intangible, like brands, goodwill and human capital. This trend of "immaterialization" of companies is likely to continue.
out of perpetual needs, which – if unmet – make him innately unhappy. Economic growth is achieved when individuals consume more and more so that demand and output are boosted. This leaves no room for altruism, where an individual may incur costs for no conceivable benefit to himself. This approach reduces the meaning of cooperation to a mere reciprocal arrangement among individuals: individual sacrifices on behalf of the community can only be seen as an insurance policy, for it will ensure the individual that the community will help him in the future.

We can understand the need for values such as compassion because of mutual dependence in this increasingly smaller and interconnected world. But spiritual traditions point to another, more profound and personal dimension of compassion. They advise us to make altruism the core of our practice, not only because it is the cheapest and most effective insurance policy for our future, but specifically because the real benefit of compassion is that it will bring about a transformation in the mind of the practitioner. It will make us happy.

How can this be done if our real nature is selfish? Compassion can only work if our nature is receptive to having an altruistic attitude, if somehow compassion is in harmony with our essence, so that we can actually enjoy being compassionate. If we are inherently selfish, any attempt to develop a compassionate attitude would be self defeating.

Most religions state that mankind’s nature is good. As we might say, our kind is kind. Buddhism explains that there is no real independently existing self that is either good or bad. Our selfish motives are based on an illusionary belief in an independent self, separating ourselves from others. We do have selfish traits, they may even dominate us, but they can be removed by practice. And since we are so connected to the world, since there is no disconnected self, the practice of compassion is most effective.

Several modern scientific disciplines, such as biology, psychology and medical science, have started to study the effects of empathy on the human mind, body, health and relationships. Not surprisingly, they have ascertained that compassion is of tremendous help to our well-being. A compassionate frame of mind has a positive effect on our mental and physical health, as well as on our social life, while the lack of empathy has been found to cause or aggravate serious social, psychological and even physical disorders. Recent research on stress shows that people who only seek short term pleasure, are more prone to stress than those who seek a higher purpose, who seek meaning rather than pleasure. Meaning generally is derived from values such as serving others, going beyond short

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18 See for example, the research of biologist Francisco Varela, in The embodied mind; Cognitive Science and Human Experiences, Cambridge, 1991. See also various exchanges with the Dalai Lama in Mind and Life conferences, such as laid down in Healing Emotions, Daniel Coleman, ed., Shambhala Publications 1997.

19 See for example the work of Prof. Joar Vitterso, advisor to the New Economics Foundation in London.
term selfish needs. The fact that disregarding short term selfish needs is actually a source of longer term happiness, turns the classical economic notion of selfish individualism upside down.20

As economist Stanislav Menchikov observes:

The standard, neoclassical model is actually in conflict with human nature. It does not reflect prevailing patterns of human behavior. [...] If you look around carefully, you will see that most people are not really maximizers, but instead what you might call ‘satisfiers’: they want to satisfy their needs, and that means being in equilibrium with oneself, with other people, with society and with nature. This is reflected in families, where people spent most of their time, and where relations are mostly based on altruism and compassion. So most of our lifetime we are actually altruists and compassionate 21.

What does all this mean for our economy? Here we are entering unchartered territory, as is always the case in a paradigm shift. But some things are clear. The debate is not simply on government versus markets. As noted earlier, I believe it is about deeper, spiritual issues. Economic thinking is primarily focussed on creating systems of arranging matter for optimal intake of consumption. It assumes that the main human impulses are competition and consumption, and it has sidestepped spiritual and moral issues because it would involve a qualitative judgment on values and other intangibles that go beyond its initial premises. But by assuming that the more we consume, the happier we are, economists have overlooked the intricate working of the human mind.

At the root of this belief in the market lies a very fundamental misconception. That is, we have not really understood what makes us happy. Blind faith in economics has led us to believe that the market will bring us all the things that we want. We cling to the notion that contentment is obtained by the senses, by sensual experiences derived from consuming material goods. This feeds an emotion of sensual desire. At the same time, we are led to believe that others are our competitors who are longing after the same, limited resources as we are. Hence we experience fear, the fear of losing out, the fear that our desire will not be satisfied.

20 Altruism has also been found to be more efficient than market exchange in spheres such as health care and education. See, for example, an examination of the British and American blood banks in Richard Titmuss’ classic The Gift Relationship, George, Allen & Unwin, London, 1970

21 quoted in Compassion or Competition: A Discussion of Human Values in Economics and Business, 2002. We should recognize that even though compassion is a desirable state of mind, there may well remain a role for competitive practices. As the Dalai Lama says, competition can be beneficial if it encourages us to be the best in order to serve others. Tibetan Buddhist monks for whom compassion is the heart practice, know a variety of competitive events, including heated public debates, which help to sharpen the mind. So while compassion is the motivating factor, competition can be a means to achieve the goal.
So we can observe that the whole machine of expanding capitalism is fuelled by two very strong emotions: desire and fear. They are so strong that they appear to be permanent features of our condition. Yet Buddha taught that since these emotions are based on ignorance, a misconception of reality, they can be removed by the understanding of reality, which is the prime object of Buddhist practice. According to Buddhism, happiness is an inner experience, available to anyone, regardless of wealth or poverty. Further, fundamentally there is nothing that we lack. By developing the mind, our inner qualities, we can experience perfect wholeness and contentment. Finally, if we share with others, we will find that we are not surrounded by competitors. Others depend on us as we depend on them.

I believe that if Buddha would be alive today, he would probably recreate economic theory based on a correct and complete understanding of what is a human being and what makes him happy. As long as economics is based on a partial or wrong image of man and his reality, it will not produce the results we need.

Towards a New Paradigm: Humanized Economics

In a sense, the redesign of economic theory has already started. In order to explain the persistent tension between economic theory and practice, and recognizing that conventional economics does not help us along much further in our pursuit of happiness, old assumptions are being reviewed. As a result, intangibles such as values and other more "noble" human impulses are gradually moving into the scope of leading thinkers, including economists, historians, social scientist, businessmen and bankers.

Nobel Price winner economist Douglass North says:

The theory employed, based on the assumption of scarcity and hence competition, is not up to the task. To put it simply, what has been missing [in economic theory] is an understanding of the nature of human coordination and cooperation22

In his best selling book the Fifth Discipline, organizational learning expert Peter Senge draws from modern sciences, spiritual values and psychology to put organizations and management models into a radically different light.23 A successful corporation, or an economy for that matter, is one that can tap its people’s commitment and capacity to learn, grow and share at every level in the company, a continually growing, learning and living organism.

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22 Institutions, Institutional Change and Economic Performance, by Douglass C. North, Cambridge University Press, 1990. The concept of cooperation has become an area of growing economic research known as institutional economics.
Similarly, the social and psychological research on Emotional Intelligence, pioneered by the Harvard psychologist Daniel Goleman, has shown that success in business is dependent on how well we cooperate with others\textsuperscript{24}. Showing respect, sympathy and understanding towards others are needed for advancing in our careers. Many corporations have started to test and train their staff according to Emotional Intelligence indicators, known as EQ.

The 1998 Nobel Prize in Economic Science was awarded to Amartya Sen, who defines economic development in terms of freedom of basic necessities such as education and healthcare. He observed that as long as the contemporary world denies elementary freedoms to the majority of the world population, planning for economic development is of no use. In doing so, he has restored an ethical dimension to the discussion of development. Sen writes in “Development as Freedom”:

> Along with the working of markets, a variety of social institutions contribute to the process of development precisely through their effects on enhancing and sustaining individual freedoms. The formation of values and social ethics are also part of the process of development that needs attention\textsuperscript{25}.

The 2003 Nobel Price in Economics was awarded to Daniel Kahneman and the late Amos Tverski, both leading scientists in behavioral finance. The latter is challenging the Efficient Market Hypothesis, the dominant paradigm based on a mechanistic worldview. As an extension, the nascent field of neuroeconomics seeks to ground economic decision making in the biological substrate of the brain. The most recent findings provide direct empirical and quantitative support for economic models that acknowledge the influence of emotional factors on decision-making behavior.

This was already clear to economic historian David Landes, who concludes in his best-selling review of two millennia of economic history “the Wealth and Poverty of Nations”: "If we learn anything from the history of economic development, it is that culture makes all the difference” \textsuperscript{26}. Just because markets give signals does not mean that people respond timely or well. Some people do this better than others, depending on their culture, and culture is nothing but the aggregation of values.

In the last few years, particularly after the emergence of the corporate scandals of Enron, WorldCom and Parmalat, values are making a revival in the business world, a movement called corporate social responsibility (CSR). Research has shown that a company's performance is for at least 30% attributable to the corporate culture, the climate at the workplace, which is a

\textsuperscript{24} Emotional Intelligence, by Daniel Goleman, New York, 1999.
\textsuperscript{25} Development as Freedom, by Amartya Sen, Alfred Knopf, New York, 1999
share too large to ignore\textsuperscript{27}. The recognition that corporate culture matters has also led to the emergence of religiously inspired literature on more enlightened forms of management, focussing on creating a happy work environment instead of maintaining control structures. Some companies now publish information on the basis of triple bottom line reporting, i.e. reporting not just on financial performance but also on compliance with environmental and social standards. Research indicates that firms who practice social responsibility, tend to outperform others at the stock market when measured over the medium and longer term\textsuperscript{28}. The insight that focusing on values does not necessarily hurt investment returns, has started to impact on the financial markets. The amounts of money managed according to socially, ethically and environmentally responsible criteria are growing, both in absolute, as well as relative terms\textsuperscript{29}.

The increased awareness that we face higher risks due to not focussing on CSR and sustainability, also contributes to this trend. Concern caused by the global climate change, has led to initiatives in Europe to start trading Carbondioxide emission rights. In addition, increasingly weather derivatives are created and traded to spread the risk of extreme weather conditions. Although still early days, these serve as examples of how the workings of the financial market can contribute to accepting environmental and social responsibility. Specifically, the main feedback mechanism in a market is its discounting principle: sooner or later, future expenses will (have to) be discounted in current prices.

This explains why financier George Soros, the Hungarian born speculator who made fortunes from free market trading, now passionately campaigns for a more social face of capitalism. In his “Open Society; Reforming Global Capitalism”\textsuperscript{30} he states:

Economic theory presuppose that each participant is a profit center bent on maximizing profits to the exclusion of all other considerations. But there must remain other values at work to sustain society – indeed human life. I contend that at the present moment market values have assumed an importance that is way beyond anything that is appropriate and sustainable. Markets are not designed to take care of the common interest.

\textsuperscript{27} Emotional Intelligence, see note 22
\textsuperscript{29} Since 1995, socially responsible investing (SRI) assets have grown 40 percent faster than all professionally managed investment assets in the US (to $2.2 trillion).See Dixon, note 28.
\textsuperscript{30} Open Society; Reforming Global Capitalism, by George Soros, BBS Public Affairs, New York, 2000
We are moving towards a new economic paradigm, one that is not based on maximizing ownership and profits or boosting abstract statistics such as GNP, but concerned with managing creativity and knowledge, and improving the quality of our lives and children’s future. Economists are busy making models that account for the intangible factors that drives the information-based economy, such as how know how and other human capital, as well as the environmental and social costs of development, such as the pollution and destruction of air, water, forests and other so called "free goods".

Hazel Henderson, an economist who has opened our eyes for the informal, unpaid “Compassionate Economy” which remains hidden from GNP statistics, pioneered by developing the Calvert-Henderson Quality of Life Indicator. From all new economic indices this one comes closest to measuring GNH by incorporating cultural values (for example as a means to measure safety) and activities of recreation, including practices of self-improvement and participating in social or religious groups.

Swiss economists Bruno Frey and Alois Stutzer, integrate insights from the emerging field of happiness psychology and economics, by measuring the degree to which unemployment and inflation nurture unhappiness. A similar approach is behind the US Misery Index, showing how unemployment and inflation strongly impact well-being. It also points to the fact that while happiness itself is difficult to measure, it is possible to measure the conditions which make people (un)happy.

Bhutan’s Wider Role

These developments in economics and contemporary western thinking run parallel to Bhutan’s call for measuring their country’s development by Gross National Happiness. The new generation of more enlightened economist would fully subscribe to Bhutan’s wish to incorporate more qualitative indicators in the measurement of growth. This sentiment will also be recognized by many in developing countries, who believe that their indigenous culture, rather than been seen as a hindrance to development, in

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31 The World Bank in 1995 issued a revolutionary "Wealth Index", which defines the wealth of nations to consist for 60% of ‘human capital' (social organization, human skills and knowledge), 20% of environmental capital (nature’s contribution) and only 20% of built capital (factories and capital). The United Nations have produced the UN Human Development Index (HDI), measuring factors such as education, life-expectancy, gender and human rights data, which is now commonly used in each of the UN’s 187 member countries.


34 Posted at www.argmax.com, 1998
fact has a lot to offer to development in terms of improving the quality of life.

It is here that Buddhism, with its extensive research on the human condition, has much to offer. By offering a personal path to achieve lasting material and spiritual happiness, Buddhism can rightly claim to have a path which surpasses any solution to obtain happiness offered in traditional economic terms, which does not go beyond an optimal level of material consumption, wealth and economic stability. From a Buddhist viewpoint, the contribution of economics and material development is nothing more than providing an external condition allowing people to devote time and energy to embark on the more rewarding path of spiritual development. Mind over matter, so to speak. As a Buddhist society, Bhutan’s ideal could be to become an example of how to put this path into reality.

At the same time, Bhutan cannot ignore modern-day global economic realities which increasingly have powerful cross-border and cross-cultural impact. Even though sentiments opposing the spread of globalization are growing and justified, Bhutan can no longer fully close its border and go back to the past. Thus, Bhutan’s leaders have no choice but to take up the challenge of the global economy, and start shaping and steering these larger economic realities in the best possible way. The key to opening up yet retaining cultural integrity lies in increased awareness, through research and conference like this. It is not simply a choice between western or traditional approaches, but rather what is needed is a combination of the two, the best of both worlds. Buddha taught that we should not accept his teachings on the basis of any authority, but only on close personal investigation: “Like one would investigate a piece of gold on the market to see if it is real or not, so should one verify the validity of Buddha’s words”.

On this basis, Buddhist culture can be inclusive and absorb those parts of western culture which are of benefit, but reject those which are not.

This inclusive yet critical attitude will form a much-needed contribution to the world at large. Since only few countries enjoy Bhutan’s cultural self-esteem rooted in its traditional yet vibrant culture, Bhutan is well placed to take leadership on promoting alternative development indicators. Bhutan’s leaders have already taken an important step by defining GNH in terms of four pillars: economic development, good governance, cultural preservation and nature conservation. The next phase requires us to go from ideals to practice.

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35 For an example of an ancient (Buddhist) society facing the challenge of Western development and consumerism, Ancient Futures; Learning from Ladakh, by Helena Norberg-Hodge, Rider Books, U.K. 1992.

36 See Liberation in the Palm of Your Hand, note 16.
From Ideals to Practice: Developing a GNH Index

How can we approach the measurement of GNH? While GNP is based on quantifiable data, GNH should incorporate many intangible values for which there is no clear cut definition or measurement at present. This is not easy to achieve. The appeal of the conventional economic indicators has been that they are based on money, which can be subjected to mathematical logic and discipline. In contrast, GNH and other sustainability indicators are based on life, which – as we now know from the modern sciences – is much more complex to measure. Since much of life, and particularly the subjective inner life, is non-quantifiable, in essence the dilemma is how to quantify the non-quantifiable.37

This being so, it seems somewhat futile to try to measure happiness directly, by asking people how they feel, as is now the common approach in researching happiness. This approach tends to confuse short term sensory happiness with deeper inner experiences, with superficial findings as the result. Therefore, I favor an indirect approach, in which we measure phenomena which invariably make people happy and unhappy. Most conditions for happiness are measurable, but in order to determine which these conditions are we need to go beyond the conventional scientific preoccupation with so-called value-free, neutral facts. Instead, we should be guided by insights from modern science and Buddhist and spiritual wisdom.

Here I offer a few thoughts that could perhaps help developing this approach. First, we have to define the type of happiness which we seek to measure by GNH. If we are to remain true to its spiritual source, we should define happiness as the (collective) evolution of consciousness, with lasting happiness as the end-result. According to Buddhism, this evolution is brought about by gradually transforming our selfish traits into a sustained altruistic volition. From concern about our own physical well-being, we develop a mindset which derives meaning from serving the whole. This implies that temporary pleasure (caused by material comfort) should be regarded as a lower type of happiness than the meaning-serving type of happiness. Still both types of happiness will be needed, they are not mutually exclusive, yet they are clearly not the same. It is important to note that here we deliberately employ a value judgment; we create a ‘subjective’ hierarchy because we distinguish between lower and higher levels of

37 Economists working on the new indicators assume this can be achieved within the quantitative framework of economics. By changing relative prices, qualitative indicators can be incorporated into the information on the basis of which we make our economic choices. For example, by taxing products made by wasteful technologies, we discourage the producer from continuing to produce in this way. But quantifying the value of natural and cultural resources is much more difficult. For example, if we value a national park by estimating the amount of money and time people are willing to spend visiting the park, can this estimate ever provide the full picture? How does one estimate the benefits of the park on the overall environment of the planet and in terms of bio-diversity? Or what if a wealthy oil firm is prepared to pay a higher price for the park than its estimated value?
happiness and consciousness. In doing so, we deviate from conventional western scientific analysis, which considers such value judgment ‘unscientific’ and prefers an egalitarian, value-neutral approach.

However, such a value-based approach is in accord with the psychology of Maslow, Max Neef, Cikszentmialyi and Seligman, as well as with insights of quantum physics, stating that there is no “objective” world out there. Everything has a measure of subjectivity. It also corresponds to recent findings on the correlation between meaning-seeking and mental and physical health. In addition, it corresponds with the modern life sciences, particularly post-Darwinian evolutionary biology, which has ascertained that essentially life itself can be described as an evolutionary meaning-seeking process of organisms, gradually involving higher levels of intelligence and consciousness.\(^{38}\)

Buddhism, like most spiritual traditions, also recognizes a natural order in life, with corresponding values. For example, serving others is considered a higher value than serving merely oneself. The Theravadin school of Buddhism concentrates on individual liberation, while the Mahayana school (practiced in Bhutan) emphasizes on liberation as a means to liberate others. So while the Mahayana (the ‘great vehicle’) path thus can be regarded as ‘higher’, it does not mean that the Theravadin (or Hinayana, or lesser vehicle) is less important. The latter is a required foundation for the former.

This leads one to conclude that GDP and GNP are both important, and not necessarily mutually exclusive; rather, GDP – reflecting the degree of material development – is a lower level indicator than GNH – which reflects a higher level of happiness.

Mahayana Buddhism speaks of ‘two truths’: the conventional/relative truth, which appears to us through the ordinary senses, and one ultimate/absolute truth, referring to reality as it is, which appears to accomplished meditators who have cleansed and sharpened their minds. The relationship between these two truth, which appear to us as duality but in fact have the same nature, is subject of a rich philosophical debate. The 2nd century Buddhist master Nagarjuna set forth the Middle Way school, which can be considered the perennial Buddhist philosophical viewpoint, in which mind and matter both exists, but not independent from each other.

This mutual dependency also applies to GDP and GNH, focusing on matter and mind respectively. Focusing on GDP alone ignores the higher potential of mankind, while GNH can only be achieved by first providing material well-being. Without a full belly one cannot sustain a spiritual life.

Once the need for a value-based order has been established, we can look at what this order should look like. I found an interesting model in a paper by Khenpo Phuntshok Tashi (National Library of Bhutan) and

Diederik Prakke, presented at the first official dialogue on GNH in Bhutan in 1999. It starts with the eight-fold path of Buddhism and draws parallels with value-based psychology of Maslow and Bhutan’s GNH components. Later I found a comparable approach in the work of Richard Barrett, who developed the seven level of consciousness model involving a hierarchy of values for cultural transformation in organizations and nations. Barrett’s model, inspired by Maslow and Vedic principles, almost seamlessly corresponds to the eight-fold path approach. It also matches with Bhutan’s four pillar definition of GNH.

A synthesis of these approaches is shown in the following model.

<table>
<thead>
<tr>
<th>Buddha’s Eight-fold Path</th>
<th>Maslow Hierarchy of Needs</th>
<th>Values / Levels of Consciousness</th>
<th>Bhutan’s GNH</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Right Meditation</td>
<td>Transcendence / Freedom</td>
<td>Service</td>
<td>Monastic wellbeing; Religious Freedom</td>
</tr>
<tr>
<td>7. Right Mindfulness</td>
<td>Identity</td>
<td>Contribution</td>
<td>Culture Preservation</td>
</tr>
<tr>
<td>6. Right View</td>
<td>Creation</td>
<td>Responsibility</td>
<td>Social welfare; Sustainable Development</td>
</tr>
<tr>
<td>5. Right Effort</td>
<td>Idleness</td>
<td>Internal cohesin</td>
<td>Nature Preservation</td>
</tr>
<tr>
<td>4. Right Concentration</td>
<td>Participation</td>
<td>Transformation</td>
<td>Political participation</td>
</tr>
<tr>
<td>3. Right Speaking</td>
<td>Affection/ Understanding</td>
<td>Self esteem</td>
<td>Education; Culture; Media</td>
</tr>
<tr>
<td>2. Right Action</td>
<td>Protection</td>
<td>Relationships (community, family)</td>
<td>Governance; Judicial system</td>
</tr>
<tr>
<td>1. Right Livelihood</td>
<td>Subsistence</td>
<td>Survival</td>
<td>GDP; Economic opportunities; Markets</td>
</tr>
</tbody>
</table>

This model opens the perspective to view GDP as the lowest level ‘bottom line’, while GNH comprises the whole spectrum of values, ultimately generating not merely gross financial capital, but also in social, environmental and cultural capital. Here the plural term ‘values’ are reconnected with its singular root ‘value’. Values evidently create value.

The eightfold path is commonly represented as the eight spokes of a wheel, the Wheel of Dharma. The wheel rests on all eight spokes, which are connected to the brim. This symbolizes the holistic and interconnected nature of the spiritual path. It also implies that a non-linear, systems approach is required. Likewise, we need a flexible, creative systems approach in developing a GNH Index, which similarly could be depicted as

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40 Richard Barrett, see www.corptools.com
The four pillars of GNH – economic development, governance, cultural and nature preservation – can be regarded as the four spokes of the GNH wheel. They are all important. Yet at the same time we need consensus about a certain order of importance. Typically, economic decisions are made on the basis of trade-offs, for example between providing employment versus the preservation of environment. What the above GNH model shows is that these trade-offs should be made in the context of a certain hierarchy of values. Otherwise higher values continue to be sacrificed for lower values, such as power or money, and investments in sustainable development will continue to be put off. If GNH can be developed into a comprehensive tool incorporating all values of life, it will be a radical improvement over conventional economic indicators.

**Middle Way Economics**

Much more research needs to be put into this. But here are some other thoughts on GNH.

GNH seems to refer to a balancing act, balancing between mind/matter, market/government, self-organization/planning, opening up/retaining control and compassion/competition. In the Western economic debates these issues are often presented as either/or questions. GNH should transcend these black and white notions by recognizing the fundamental interconnectedness of all things.

The new life sciences confirm that the experience of contentment and well-being in humans and other living organisms, is derived from an equilibrium, from a state of balance between the living species and its environment. In life this state of balance enable the species to endlessly interact, give and take, and create win-win exchanges with other beings. Extending this argument into GNH, the GNH model should be designed so that it provides this climate of balance and harmony within societies. Here I don’t refer to settling for a compromise or a second-best solution. Rather, I refer to an active policy of creating win-win solutions (like providing employment and preserve the environment) and conditions which inspire all actors in the economy to take responsibility for the whole.

As long as we treasure the freedom and opportunities that the market economy provides, GNH will have to include principles of competition and market forces. Competition is so much valued in our capitalist economies because it has proven to be the most effective incentive for bringing out the best of our selves. That is why capitalism has 'defeated' communism. But competition without a moral dimension is like an elephant gone wild - it will destroy the very earth it depends on – so GNH should be based on ethics. At the same time, the failure of Marxism has shown us that values such as compassion or cooperation can never be more than guidelines for individuals or groups. Likewise, GNH cannot be translated into an ideological system and forced upon us.
In sum, GNH seems congruent with what is known as a 'mixed economy', the idea that market forces could do many things well - but not everything. This will require government and all actors in the economy to reclaim responsibility for their lives and start defining economic objectives in more human terms. The neoclassical principle of 'laissez-faire' has wrongly created a mentality of taking things for granted and we have become enslaved by the market and its monetary values. The alternative is not a return to rigid central planning and closing one's border, but rather the development of an alternative economic model tailor-made to suit the condition of our own society and life itself.

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