Research Note

Social Inequality and Recession – Causes and Possible Cure

SATYA SAURABH KHOHLA
Corresponding author: satyasaurabh@gmail.com
Contributor & Independent Researcher

About the author

Satya Saurabh Khosla holds honors in economics from St. Stephen’s College, Delhi, and is a postgraduate from Indian Institute of Management, Ahmedabad. He has been doing business since 1981 and also participated in financial markets as an investor. He predicted the 2008 crash. Subsequently he authored the book “How to Prevent Recession using Ancient Wisdom and Management Ideas”. He considers that the concept of limits to greed in individual and group behavior can be used by academicians and practitioners to prevent recessions. His research objective is to incorporate ancient wisdom in theory and practice to replace greed in economic life with a responsible and enlightened attitude. His book is referred to in the 2017 Future of Government Report of World Economic Forum. The WASC Senior College and University Commission in USA and the All India Council of Technical Education in India are reviewing his work. This series of articles is an excerpt from his forthcoming book.
abstract

Ever since the Industrial Revolution the world has seen economic growth with recessions and social inequality. What restrains social inequality while generating economic growth without recessions? Can the solution be understood, learnt and used by businesses and citizens? This article, first, uses research data to identify the cause of social inequality and recession. The solution, as suggested by research, is given next - with ideas of leading academics seeking socially responsible attitudes to profits. A real life example of the solution - of how individual effort can achieve society’s goals is, then, given. Finally, current efforts that work to replicate it, to create Well Being and prevent recession, are discussed.

The Lessons of History

Ever since the birth of civilization society has sought material wealth through private enterprise and progress through social stability. However, economic growth has not always led to economic and social balance. The GDP data of countries may not reflect their social progress as measured by a Social Progress Index being released since 2014. As David Cameron, Prime Minister of United Kingdom, points out “economic growth is only a means to an end”. Similarly, the World Economic Forum states that the ‘end’, or target, of economic activity is the Well Being of all.

What is the challenge facing modern economic and social governance? Today stagnating economies, large inequalities in wealth and opportunity and economic uncertainty threaten the foundations of Well Being of society. Apart from slowing growth rates, the serious challenge is economic inequality and its corollary social disadvantage (which is accentuated by denied opportunities).

Societies have learnt that socio-economic inequalities, when unchecked, can lead to social and political dysfunction. The resultant negative expressions can impinge upon personal freedom and choice. They may impact other Social Progress Indicators like personal safety and rights and ideas of tolerance and inclusion. To prevent such expressions, a focus on basic medical care, water and access to basic knowledge as well as healthcare leading to wellness can be useful goals. When access to advanced education and advanced medical treatment, too, is added Well Being and Social Progress Indicators are very positively impacted.

The Rise of Useful Science and Economics

Much of our modern wealth is created from science and its applications in economic activity. A scientific search for solutions to inequality, therefore, seems reasonable. But, science needs both data and observation. Such data is available to us starting from the Industrial Revolution.

Thomas Piketty, the French Economist, has used data from the last 250 years in his work ‘Capital of the 21st Century’ to explain the causes of wealth inequality. Irrespective of whether we agree with his tax recommendations, Piketty’s findings suggest preventive action using another solution that has always worked in the past. Anthony Atkinson, Joseph Stiglitz and others have also written on the problem, its causes and
Ambitious new policies in technology, employment, social security, the sharing of capital and taxation have been proposed and discussed. The ‘rent seeking’ system (which reinforces inequality) and policy choices for political action have often been debated. However, one dimension pointed out by Piketty, and as he believes (based on his findings), the solution that always works, has not got due importance. It will be examined in this four part quest.

Identifying the Cause of Inequality

In his study of Income & Wealth distribution Piketty finds that (at a macro level) whenever return on capital or ‘r’ is greater than the economic rate of growth or ‘g’, inequalities in society rise. Can the difference between ‘r’ and ‘g’ naturally be the macro or national summation of individual greed working at the micro level?

If owners and managers of capital seek rates of return greater than the rate of growth, then, the macro summation of their innovation should spur ‘g’, economic growth. However, in its absence, a strategy to only increase the return on capital is a priori a case of greed. A natural inference from Piketty’s work would, then, show greed as the recurrent cause of recession. In other words, recession results from the dislocation of rates of economic return from the means to pay it.

When this happens, Piketty finds in history equalizing actions occurring to counter such dysfunctional forces. The resulting and equalizing forces are both economic and social, the Great Depression being one of them. Consequently, at such times, social, intellectual and political unrest can occur.

What can counter or prevent recessionary forces? Piketty’s findings conclude that the most important deterrent is the diffusion of knowledge and skills within and between countries.

The Solution: Exploring Its Dimensions

Thomas Piketty (Capital in the 21st Century) asserts that diffusion of knowledge and skills between nations and within a nation always reduces economic and social inequality. Thus, two options face society today: (a) endure repeated cyclical recessions or (b) achieve greater diffusion of knowledge and education as a means out of recession and the way towards sustainable growth. A world, still managing the aftermath of 2008, should opt for education and the diffusion of knowledge even though it does not offer any ‘quick fix’ solution. This is where the idea seems a little complicated or too simplistic. Let us consider two things:

(1) Where the personal desire of owners of capital extracts more in rates of return than is supportable by the economy’s growth rate and does not lead to growth, then this is greed. Greed, therefore, may prevent investment in longer term growth opportunities (implying return for capital in sync with economy’s current growth rate). Unsustainable greed, thus, can prevent re-investing profits in socially productive directions with (maybe) slightly lower returns but ensuring sustainable progress of companies and society. A Shared Value of collaborative strategies (instead of exploitative ones),
research shows, can create sustainable value and profits for all. This may, in the long term, lead to a more equitable wealth distribution by creating opportunities for stakeholders too. Capital and market based societies walk a tight rope where economic choices are driven by individual and corporate attitudes. What transforms them, enabling wise choices to prevent recession?

(2) If the diffusion of knowledge and skills prevents recessions, we need to study the nature of the current economic problems in this area, too. Many believe that the 2008 recession was caused by the greed driven behavior of managers who indiscriminately used knowledge and skill of derivatives and leveraging. A disregard for the wider consequences did achieve higher rates of return (more than economy’s rate of growth and without enabling a ‘real’ addition to it) but led to a recession. Some other useful ideas in teaching curriculum either did not get due importance or were not understood properly. The relevant question, today, is that if such greed based application of knowledge is used to develop skills and these are practiced widely, it may hasten another recession. Thus, those academic concepts that can transform attitudes and apply knowledge and skills to benefit both companies and society need to be diffused. Application of tools like derivatives and leveraging must be guided by such ideas and attitudes.

A Wider Understanding of Role of Profits and Investment in Business

The idea of profit benefiting society has engaged some of academe’s most accomplished thinkers. Michael Porter of Harvard proposes the idea of Shared Value. Prof Jagdish Sheth of Emory in a well-researched work, using ideas practiced by eminent businesses, formally introduces the concept of the practice of love in business – an idea on which many eminent business practitioners have written. Rosabeth Moss Kanter of Harvard, for example, worked with companies driven by concern for the victims of the Asian Tsunami and their communities.

Within businesses there are ways of creating new skills, adapting to the ever changing nature of business, simultaneously keeping the Well Being of both workers and society in mind. McGrath gives the example of Milliken adjusting to change keeping workers welfare in mind. Raj Sisodia talks of ‘Conscious Capitalism’. Ideas of Corporate Social Responsibility, Capitalism 3.0 have emerged. Prasad Kaipa, who worked with Apple, gives the idea of moving businesses from being ‘smart’ to being ‘wise’. This thought is personally endorsed by the most reputed CEOs today. Prof. Sir Cary Cooper works in the area of Well Being dealing with the new ‘end’ or ‘purpose’ of all activity, including business, pointed out by the World Economic Forum.

Education, Schools and the Promotion of Well Being

How can wisdom create Well Being for society? Business is just one aspect of society. A lot of importance is being given now to social enterprises by academicians, business schools and universities. They consciously prepare students for roles therein. If business is a part of society, every business is contributing to customers (who, too, are a part of society). This contribution should create Well Being and not harm either customers or society in the long run.
This is part of the new consciousness that is emerging in academe, business and thinking generally in society. Numerous examples exist of this new thinking. It has been suggested that profit, if driven by greed, is like a car programmed for top speed only (ignoring criteria like road conditions, turns, bumps, traffic signals etc). This increases the likelihood of a crash or recession. Profit of the firm should be derived in a manner that it is profitable for society first and foremost.

How can such a socially conscious movement develop, not just in thought and academic papers but be integrated and practiced in society? Is there an example of such an integration of education with needs of society? We will examine it in the next article of this series.

Incorporating Wisdom in Education Transforms Human Attitudes

Research, using data from the last 250 years, shows that education is vital to the Well Being of all societies. However, when all do not share the confidence in the way some ideas of education are interpreted by a few, there is a need to look to practical examples where education has ‘changed’ minds and attitudes about what is profitable for society. This attitude of what is profitable for society being the guiding force of profit for business is found in ancient wisdom. Can such ancient wisdom be merged with present day education? What will be the impact on individuals and their actions of such a merger? How will the resultant activities help society?

We will give an example here of how education ideas based on wisdom merged with modern ones to transform the nature of value added in society.

How Human Actions, with Transformed Attitudes, Create Well Being: An Example

Thirty years ago, in a small hamlet in South India a school was set up by a private citizen adding ancient wisdom to current academic curriculum. This was followed by a University. Here all education from primary to PhD was given free of cost. The only difference was the focus on ancient wisdom being added to the present curriculum. Could it impact society positively, creating Well Being by adding to academic excellence an execution of goodness in actions?

Let us see academic excellence first. The school, today, is among the top 10 ranked CBSE schools in India. The University was described by NAAC (National Assessment and Accreditation Council, India) as “the crest jewel of the Indian University Education system”.

How does diffusion of wisdom transform students, benefit society and create Well Being?

Today, the hamlet is a small town and has a Super Specialty and General Hospital. They have opened such a facility in a neighboring state capital, too. These have provided over 5 million free services of the highest global standard to the poorest of the poor. These include free cardiac and neurosurgery operations with free pacemakers and free laboratory and radiology services too, apart from nursing. In addition, 0.8 million free services have been provided at the doorstep of half a million of the poorest of poor through mobile hospitals. Cardiac telemedicine services are given from here to 600 villages every month. 5000 outpatients are treated free of cost every day. Last year the super specialty hospitals performed 22,000
free surgeries/ interventions totally free of cost. Today, 102 schools with 60,000 children are being provided financial assistance to spread the ideals of such service to society among students. Alumni can serve in the hospitals.

But, is this work executed with the concept of excellence? A PhD thesis on quality aspects of management of healthcare sector in India researched satisfaction level of inpatients and out patients as well as the value they receive. It discovered that this was far higher in the super specialty hospital in the hamlet than in government or private sector hospitals. The highest quality of service with highest customer satisfaction is an indication of achieving excellence.

Ancient wisdom affirms that concern for society should be the first motive of human action. Is there any other expression of such an understanding of excellence in evidence here?

The region has been drought prone for hundreds of years. The Well Being of 1600 neighboring villages has been impacted by providing them free drinking water, giving relief to 3 million people throughout the year. Drinking water is also being provided to a yet another neighboring state capital which has faced perennial water shortage by building a canal.

What defines goodness? The drinking water project, after it became successful, was transferred to the State Government! A broad vision of convergence of interests of government, private citizens and society is the prerequisite of creating Well Being and enabling social progress. Such wisdom needs to be demonstrated to students to transform their attitudes.

Creating Well Being, Transforming Human Potential: Society’s New Challenge

The Well Being created through such projects is not just a question of raising funds but of creating a group of educated persons who offer services with excellence and goodness. Only transformation of human potential, through wisdom, ensures sustainability of business, society and environment.

The challenge is not of money but of creating transformed individuals through education. Corporations, too, need such employees who can serve customers as they serve society here – with excellence filled with goodness. They will not misuse their skills or misapply academic ideas. In fact, customers and society need them more. Their empathy can help create products that fulfill customer needs in a manner that creates value for society and preserves environment.

How are wise ideas created among students? All students are trained in social service. They are sent to rural areas to do service including distribution of food and clothing to create, both, awareness and sensitivity. The exposure to concerns of this segment of society with a strong emphasis on a curriculum of human values (that are common to all religions and cultures and necessary for society and a civilization to survive) are fundamental drivers of education (called ‘educare’ here). The model is applicable without geographic and cultural limitation as festivals of all cultures and religions are celebrated with equal enthusiasm with appropriate rituals.

In this context Piketty’s findings about education (being the greatest equalizing force) becomes relevant. Such Education and Wisdom, if diffused, can produce a work force whose actions (in corporate world, social organizations, administrative, political spheres etc.) will have benefit of society as the focus of individual
action. This can help create Social Progress and Well Being.

**Individual Excellence and the Art of Goodness**

Recently, many ideas for measuring progress have emerged. The World Happiness Report, Happiness Indices, Happy Planet Index, Gross National Happiness, Well Being Indices, Better Life Index etc are some of them. What can naturally influence human actions to look beyond GDP, quarterly profit and individual greed? What can education impart that transforms human actions, create harmony in society and naturally lead to an improvement in these indices? Ancient Wisdom believes that the idea of achieving individual excellence that is ingrained in the modern education system should be augmented by teaching individuals the need to practice goodness and values that sustain the group and society. Academic research, curriculum and teaching should fill the idea of seeking individual excellence with goodness. This naturally creates a sense of responsibility towards society, sensitizing individuals about the impact of individual actions on others.

*Enabling Change in Attitudes with Ancient, Wise Ideas*

What ideas can enable a change in attitudes? Let us take an example: The Purushasukta text of ancient Vedas promotes a visualization to sustain groups: “Humans are a limb of society; society is a limb of nature”. Can strengthening a limb by harming the body lead to progress? Realization of interdependence is the foundation of ancient wisdom. Such wisdom also believes that individual self-restraint is not at odds with collective economic progress. Both are mutually supportive. How to create a conviction about this in a graduating students mind?

A good practical example in today’s world is the victory seeking process within a soccer team. A single player has to play so that he makes the team win. If his focus is on scoring a goal for his individual or exclusive fame and fortune, it may harm the team, not only in terms of the result but also in terms of the enjoyment/satisfaction of the game itself. However, currently, education practices are not adequately able to build upon this idea to transform human attitudes for actions. The graduating student, today, is not able to visualize society as his team when taking decisions. This is reinforced when others also take self-centered actions, damaging society, creating problems in governance. Not only theory but the practices of ancient wisdom help the human mind form such wider visualization easily. For example, when mathematicians find the distance between the earth and the sun, they visualize a concept of Directrix. The imaginary points they visualize help solve the problem. Prolonged, deep analysis is wisdom’s art of analytical meditation, commonly used by many thinkers. Education should promote a habit of prolonged deep analysis of impact of human action on others, before any action is taken.

*The Human Mind, Our Schools and Education*

If students are trained in wisdom using its analytical tools, not only will they understand theory but will be able to do the necessary wider visualization of the impact of their actions on society. The application of
theory will result in actions that suppress greed and help the team reach the goal.

Thus in different subjects of study, following rules and ways of visualization were included in ancient wisdom. As times ‘progressed’ the wider sensitivity and the implied altruism of this approach was given less importance or forgotten. No secular style, technique, theoretical framework fusing individual economic decisions with its wider impact has adequately replaced it.

This sensitizing and/or training of the mind was given vital importance by ancient wisdom. The ideas above are fast gaining ground again. The research in Behavioral Epigenetics is fascinating many. The research of behavioral scientists like Sara Lazard of Harvard, Richard Davidson of Wisconsin etc. see impact of wisdom practices on density of grey matter and different level of activities in regions of the brain etc. The research of developmental biologist Dr. Bruce Lipton, from his Stanford days onwards, attracts interest of some. The influence of belief on the development of genes and DNA is his area of research. A shared belief in truth, right conduct, using such research, is the way to sustain society.

A belief in excellence filled with goodness should be able to transform each individual and, thus, society. Of course, such a belief in goodness and excellence is the foundation of ethics common to all religions (derived using common sense, common experience and scientific findings, too - these ethics being a belief in truth, righteous conduct, peace, Love, non-violence). Current ideas like ‘shared value’ of Porter (if understood as sharing value through excellence filled with goodness, using ethics of truth to prevent cheating and righteous conduct to prevent a recession like in 2008), Selfless Love (of Prof Sheth) and Well Being (World Economic Forum etc.) can become the meeting ground of ancient wisdom and modern education. Education, finally, needs to transform attitudes enabling its concepts to lead to actions by individuals in a manner that helps society.

Our Future Prosperity

Much of society’s current economic prosperity emerges from use of science and sciences like management etc. Ancient wisdom uses science of the mind to enable excellence and goodness in application of science. This can be the basis of our future prosperity. Academicians are currently working in this area to develop a curriculum incorporating both to create future Well Being.

Many leading Professors in The Mind and Life Society along with Emory University are creating a new syllabus for schools around ideas of wisdom. An ‘Educare’ curriculum for schools, Vidya Vahini (based on concepts used in the small town whose example has been given), is partly being supported by the Indian global software firm, Tata Consultancy Services. A University syllabus for MBA program using such ancient wisdom has been created. His Holiness the Dalai Lama reviewed it and wrote that “This is a very profound concept”. A similar program for all other subjects is the new area of research.

The ideas outlined in these articles foresee that the future of social progress and Well Being in society lies in adding ancient wisdom to education. While information based education can add to economic progress and GDP, wisdom transforms students to create social progress along with it. Education, using wisdom, helps individuals act as responsible change agents in society. This achieves social progress, prevents recession while reducing inequality, creating Well Being.
References


creating-shared-value, accessed on Oct. 1, 2017. S
isodia, R., Wolfe, D. and Sheth, J., 2007. Firms of Endearment: How World Class Companies Profit from
org/reports/well-being-and-global-success.