Theoretical Exposition of Sufficiency Economy: Buddhist Ethics and the Spirit of Capitalism

Abstract

This paper is the theoretical exposition of “Sufficiency Economy”. In the most general terms, Sufficiency Economy focuses on the idea of moderation and self-reliance in all aspects of human conduct. In microeconomics, Sufficiency Economy condemns extreme consumerism characterized by extravagance, excesses, and conspicuous consumption. In macroeconomics, Sufficiency Economy seeks to shield the country from the effects of external shocks (UNCTAD, 2000). These shocks are called negative externalities resulting from sub-optimal market structure. They are characterized by market failure: imperfect competition, price discrimination, and asymmetric information. Sufficiency Economy belongs to a category of economics known as developmental and welfare economics.
1. Introduction

Thomas Hobbes conducted a thought experiment in his writing of Leviathan. In the true state of nature, human condition is described as bellum omnium contra omnes (the war of all against all). In order to enjoy peace, people enter into a social contract by giving up some of their liberties. Jean-Jacques Rousseau followed up on the idea in 1762 when he published The Social Contract (Rousseau, 1762). In 1776, a Scotsman, Adam Smith, published another influential piece called ‘An Inquiry into the Nature and Causes of the Wealth of Nations’. The book was celebrated as a success as it replaced the then prevailing theoretical dominance of physiocrats in France (Cantillon, 1755/1952). In The Wealth of Nations, Smith claimed that the pursuit of self-interest benefits society as a whole through a mechanism that he termed the ‘invisible hand’ (Smith, 1776/1937).

These major works spoke to the hearts of men of the ideals of political economy; Hobbes, Rousseau, Cantillon, and Smith took extreme views of the harsh reality of human nature as a starting point, in order to advance their ideas. We can also cite the works of other Western thinkers who took a similar approach to solve human problems. However, by reflecting on the teaching of Buddhism, the Thai people prefer the middle path. Nothing should go to the extreme; we emphasize moderation, not excesses. The views of His Majesty the King, Bhumibol Adulyadej, are a living testament to the advocacy of moderation and a balanced view of development, government and statecraft. It is in the spirit of this middle path concept that the King advanced the theory of Sufficiency Economy; his works and ideas were recognized, appreciated and accepted by the United Nations as on a par with mainstream economic theories when that body bestowed upon this Leviathan (Leviathan, 1651) the title of Developer King. On May 26, 2006, the United Nations presented him with the Human Development Lifetime Achievement Award, the first of its kind. This paper is an attempt to place Sufficiency Economy in a theoretical perspective based upon Western concepts of micro-and macroeconomics.

2. Classification of Sufficiency Economy

Some commentators attempt to classify Sufficiency Economy as a Philosophy. Philosophy is defined as “love of wisdom”. It is the careful thought and analysis of the fundamental nature of the world; a basis for human knowledge and the evaluation of human conduct. This is too broad and could not be used as a tool to help explain Sufficiency Economy. There has been at least one attempt to explain Sufficiency Economy as rhetoric (Intravisit, 2005). “Rhetoric” is defined as the art or technique of persuasion through the use of language. In today’s usage, rhetoric is a pejorative or dismissive term used to distinguish between “empty” words and action, or between true or accurate information and misinformation, propaganda, or to denigrate specific forms of verbal reasoning as spurious. It is wrong to classify Sufficiency Economy as rhetoric. According to Baconian analysis, this type of misclassification is known as idola fori (idol of the marketplace) or misuse of language.

Some writers classified Sufficiency Economy as a policy. “Policy” is defined as a plan of action guiding decisions to reach a well-defined objective. A policy can be understood as a political, management, financial, and administrative mechanism arranged to reach explicit goals (Lowi, 1964). The classification of Sufficiency Economy as a “policy” is too subjective. Although a policy has objectives and goals, they are influenced by individual bias. Such bias stems from political ideology and personal preferences. Preference and bias are the intellectual trap that Sir Francis Bacon called idola specus (idol of the dens) or personal bias.
Sufficiency Economy should be classified as a theory. "Theory" is defined as a description of knowledge objectively formulated. It is capable of predicting outcome and may be subjected to testing or experimentation. A theory may be verified through empirical observation. According to one writer, a "theory is to be judged by its predictive power for the class of phenomena that it is intended to explain" (Friedman, 1953). The assumptions of the proposed theory must not be encumbered by complicated assumptions; this requirement is known as the Occam's razor test. The test requires the proposed theory to be simple, short and succinct as described in its Latin expression; entia non sunt multiplicanda praete necessariam (entities should not be multiplied beyond necessity) (Charlesworth, 1984). The basic premises of Sufficiency Economy are neither complex nor cumbersome to catalog and understand. It seeks to achieve economic efficiency by risk aversion through moderation in all aspects of human conduct. In macroeconomics, Sufficiency Economy advocates balanced development, also known as sustainable development. The beauty of Sufficiency Economy is its simplicity in formulation and approach. It is an economic theory belonging to the field of welfare and development economics.

3. Theoretical Exposition and Reconciliation with mainstream Economics Theories

3.1 Moderation and Sufficiency Economy

In many ways, Sufficiency Economy improves existing theories, such as that explained by Hayek. Hayek claimed that efficient exchange and use of resources can be maintained through the price mechanism in the free market. However, this is not always true. According to Veblen, consumers acquire goods not so much to satisfy their needs, but to display an appearance of wealth. This behavior leads to consumer debt and the financial ruin of individuals. If Hayek is correct in his preaching of price mechanism as the immutable rule of efficient resource allocation, we would not see the Veblen effect or Giffen goods. Therefore, in case of conspicuous consumption or hyper-consumerism, Sufficiency Economy's advocacy for moderation is consistent with our search for optimum utility, a goal long sought by Paretoian economists. Sufficiency Economy speaks against consumerism of the type described by Thorstein Veblen as unhealthy and self-defeating.

3.2 Ethics in Sufficiency Economy

One element of Sufficiency Economy is ethics. Ethics is defined as the rules or set of values held by the community or group of people to adjudicate its members' conduct of what is right and wrong. Sufficiency Economy delineates ethics to consist of honesty and integrity. According to the Western view, honesty connotes communicating or acting truthfully. Integrity means a refusal to engage in behavior that refutes responsibility. However, honesty and integrity under Sufficiency Economy are rooted in the Buddhist tradition, and have a deeper meaning than the Western notion of honesty and integrity.

Honesty, according to Sufficiency Economy, is comprised of eight elements of samma or "truthfulness:" (1) samma dhiti, (2) samma sanggappa, (3) samma vaja, (4) samma gammanta, (5) samma achiva, (6) samma vayana, (7) samma sati and (8) samma samati. Samma dhiti refers to truthfulness in thoughts or thinking. This first element of honesty requires objectivity in belief or thinking. In the Buddhist tradition, this first element of honesty or truthfulness requires that the individual accept four cardinal truths that life is full of suffering (dukkha); suffering has causation (samudaya); suffering may be eliminated (Nirodha); and there is an empirical method of eliminating suffering (Magg). The second element of honesty is samma sanggappa is truthfulness in opinion. An honest person's opinion should not be influenced by lust, jealousy, and envy.
Thirdly, honesty must have samma vaja or truthfulness in words; truthfulness in words goes beyond the proscription against telling lies. Samma vaja speaks out against four types of defilement by words: musavadha (lie), pisuna vaja (insinuation), Bharusa vaja (verbal epithet or cursing), and sambhabprapa vaja (boastfulness). These four types of speech are considered untruthful, and, therefore, violate the rule of honesty. The fourth element of honesty is samma sammanta or truthfulness in conduct and action. This fourth element of honesty consists of three sub-elements: paru dhipata (taking the life of another), adhinnadhana (theft), and gamesumichjara (infidelity). The fifth element of honesty is samma achiva or truthfulness in profession or vocation. The vocation or profession in which one engages must be in conformity with the law of the community. Sixth, honesty requires samma vayama or perseverance. The seventh element of honesty is samma sati or truth of consciousness. There are four sub-elements of consciousness: gaya-anupasana (know that this body is not permanent), vedhana-anupasana (know that happiness, sadness and detachment are not permanent), abhitta-anupasana (know that emotion is not permanent), and dhamma-anupasana (know that even dhamma is not permanent). Lastly, honesty requires that a person has samma samatti or truthfulness in concentration. This last element requires the person to be meditative in thinking. An honest person must have the correct or right thinking; correct thinking requires four elements: panya (intelligence or know what should be known), sajja (sincerity in words and conduct), jaga (remove that which deters sincerity), and oupasa (detachment from that which destroys peace of the inner self). These elements comprise honesty as defined by Sufficiency Economy. Under this view, ethics consists of of three components: mind, body and speech: thinking, doing and speaking truthfully.

3.3 Balanced Approach at an Individual Level

One economist divided economic development into five stages: (1) traditional society; (2) pre-condition for take-off; (3) take-off; (4) drive to maturity; and (5) high mass consumption. Recognizing the validity of Rostow’s proposition, Sufficiency Economy warns consumers in a developing economy, stage 2 or 3 in the Rostovian Take-Off model, not to engage in a consumption pattern indicative of the “mass consumption society.” Consumers in stage 2 or 3 engaging in consumption behavior, appropriate for mass consumption society, would most likely experience a budgetary imbalance, i.e. unmanageable debt resulted from conspicuous spending.

Figure 1. Sufficiency Economy redefines Pareto optimality (E).
In Figure 1 above, the amount of personal savings is determined by the absolute value of the difference between \( P_2 \) and \( P_3 \) or \( |P_2 - P_3| \). For the aggregate household savings, the expression becomes: \( Y = (y) - \Sigma(P_2 - P_3) \). The income of individuals is represented by \( y \), and the aggregate income is \( Y \). Aggregate savings in an economy is:

\[
(Y-G) = \Sigma\left(\frac{P_2 - P_3}{P_2}ight), \quad \text{where \( G \) is government taxes.}
\]

Therefore, aggregate savings can be written as:

\[
Y = \Sigma(P_2 - P_3).
\]

The national savings could be written as:

\[
\Sigma(Y - \Sigma G). \quad \text{It could be argued that the new Budget Constraint (BC\_Ag)}
\]

line being shifted to the left would result in the slowness of economic growth; hence, reducing the growth of the GDP. This seemingly polemic issue is answered by the classical proposition of capital formation. Capital formation is defined as the national savings needed for the big push in economic growth. As the nation saves, the corpus of the savings is turned into capital. This capital is made available for projects funding that would lead to economic expansion and, hence, economic growth. In the expression below, government spending is represented by \( G \). Government spending also creates jobs and income for people. As the result, there are additional aggregate savings, and more disposable income is available to the people. As the process repeats itself, the multiplier effect will set in and leads to the expansion of the GDP\(^5\). Therefore, Sufficiency Economy is not anti-growth or reactionary in outlook.

4. Sufficiency Economy and Microeconomics

4.1 Pareto Efficiency and Sufficiency Economy

In neoclassical economics\(^7\), economists are concerned with efficient resource allocation. Resource allocation attains highest efficiency if the shifting of resource allocation from one individual to another can make at least one individual better off without making anyone worse off. This is known as Pareto efficiency. If the claim of theoretical affinity between Sufficiency Economy and Pareto Efficiency could be proven, Sufficiency Economy may be classified as a work on par with those magnum opus of economists such as Pareto, Edgeworth, and Fisher, as well as other neoclassical theorists in the 1930s and 1940s: Arthur L. Bowley (1924)\(^8\), John Hicks and Roy G.D. Allen (1934)\(^9\), Abba Lerner (1932, 1934, 1944)\(^10\), Nicholas Kaldor (1939)\(^11\), Tiber de Sctovsky (1941, 1942)\(^12\) and John Hicks' work, Value and Capital (1939)\(^13\). Sufficiency Economy is rationalized in the same way as the Paretoian approach as expressed in the masterful efforts of Maurice Allais (1943)\(^14\), Oskar Lange (1942)\(^15\) and Paul Samuelson (1947)\(^16\).

Economists tend to equate utility with efficiency. However, the two terms are not the same. In both cases, economists assume that economic agents are rational. Sufficiency Economy does not reject this point, but modifies it on the line of bounded rationality. We can never be so absolute in our assertion so as to claim that all economic agents are "rational". The case of consumer credit spending is an illustrative example to dispove this absolutism. The availability of consumer credit, such as charge, debit or credit cards, allows economic agents to spend beyond their true budget constraints. This consumption behavior is typical of what Herbert Simon claimed was bounded rationality. Even though economic agents attempt to maximize their economic utility under any choice of purchasing, they do not at the same time optimize their economic efficiency. The availability of consumer credit may allow economic agents to acquire goods at a price level or a quantity larger than what they would normally attain. Under a true budget constraint, this higher level of utility is a false utility. The tangency between the indifference curve (IB) and the extended budget constraint line (BC\_credit) yields utility under false budget line. This utility does not equal economic efficiency because economic agents spend outside of their budget constraint line. It is here that Sufficiency Economy makes the distinction between economic utility and efficiency.
By removing the budget line created by consumer credit, economic agents’ consumption frontier is placed at the true budget line. Within the boundary that touches both the X and Y axes, economic agents spend within their means. The tangency where the indifference curve touches the budget constraint line, an optimal point of economic utility and efficiency is attained. At this point (E₁), utility equals efficiency in the classical sense as seen by Bentham and Mill, as well as redefined by the neoclassical thinkers, such as Pareto, Hicks and Kaldor. Figure 3 shows how Sufficiency Economy’s advocacy for moderation in consumption helps curtail consumer spending. It warns against false utility under credit spending. Controlled spending is not anti-market or anti-capitalism. Debt burden or deadweight loss in society is not due to capitalism, but consumers themselves in a capitalist economy. The availability of consumer credit makes it too easy for individuals to live beyond their means. It is the availability of consumer credit that gives society a false budget constraint line. To obtain utility at any points (I₀, I₁, or I₂) along the BC
Credit is to lose economic efficiency because consumer credit is purchasing power, not income. This point is the weakness and the inadequacy of the classical and neoclassical explanation of efficiency and utility. Utility obtained under consumer credit or a falsely extended budget constraint line BC
Credit is economically inefficient. Individuals must consume within the BC
True line; a budget based on cash on hand and adjusted for personal savings and government taxation.
Good Y

\[ I_B = I_0 + I_1 + I_2 + I_3 + \ldots + I_n \]
\[ I_A = I_{00} + I_{a1} + I_{a2} + I_{a3} + \ldots + I_{an} \]

- \( I_B \) = Economic Utility
- \( I_A \) = Economic Efficiency
- \((I_A \cdot I_B)\) = Excess Burden or Deadweight Loss

**Economic Inefficiency or Veblen Effect**

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\[ I = \text{indifference curve between Good X and Good Y.} \]

If \((I_A \cdot I_B)\) = Excess Burden or Deadweight Loss, then \((I_A \cdot I_B) = 0 \text{ or } I_A = I_B \) Economic Efficiency. To gain economic efficiency, consumers must curtail their credit spending. By removing credit spending, the false utility obtained through credit spending is removed. The Budget Constraint (BC) curve moves to the left. This BC curve is the cash budget line. It is within the shaded area that Sufficiency Economy hopes to attain.

At point E, a consumer attains an optimal level of efficiency.

**Economic Efficiency defined by Sufficiency Economy**

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**Figure 3**. Shifting the Budget Constraint line to the left to reflect true Budget Constraint.

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6. Conclusion

Sufficiency Economy is consistent mainstream economic theories. Sufficiency Economy introduces Buddhist ethics into the spirit of capitalism by advocating ethics and moderation. This paper classified Sufficiency Economy as an economic theory. Sufficiency Economy made a noteworthy contribution to the world body of knowledge by helping to redefine both classical and neoclassical concepts of economic utility and efficiency. It recognizes that the availability of consumer credit produces false economic utility. On this point, Sufficiency Economy redefines the Budget Constraint Curve to reflect today’s reality by taking into account personal savings and government taxation as the adjusting factors before plotting the Budget Constraint Curve. This contribution further helps redefined the Pareto Frontier and, hence, economic efficiency. Both the power and beauty of Sufficiency Economy can be credited to its creator: His Majesty King Bhumibol Adulyadej, the present reigning monarch of the Kingdom of Thailand.
End Notes

Sustainable development is a process of developing land, cities, business, communities, and so on that "meets the needs of the present without compromising the ability of future generations to meet their own needs" according to the "Brundtland Report," a 1987 report from the United Nations. See United Nations General Assembly Resolution A/38/161: - "Process of preparation of the Environmental Perspective to the Year 2000 and Beyond."

Welfare economics is branch of economics that uses microeconomics tools to determine resource allocation efficiency and income distribution. It attempts to maximize social welfare by reexamining economic activities of the individuals.


This notion of "truthfulness in vocation" also finds acceptance in the Western concept of "calling." In Max Weber’s writing, it is said that: "Wealth is thus bad ethically only in so far as it is a temptation to idleness and sinful enjoyment of life, and its acquisition is bad only when it is with the purpose of later living merrily and without care. But as a performance of duty in a calling it is not only morally permissible, but actually enjoined. The parable of the servant who was rejected because he did not increase the talent which was entrusted to him seemed to say so directly. To wish to be poor was, it was often argued, the same as wishing to be unhealthy; it was objectionable as a glorification of works and derogatory to the glory of God. Especially begging, on the part of one able to work, is not only the sin of slothfulness, but a violation of the duty of brotherly love according to the Apostle’s own word. The emphasis on the ascetic importance of a fixed calling provided an ethical justification of the modern specialized division of labor. In a similar way the providential interpretation of profit-making justified the activities of the business man. The superior indulgence of the seigneur and the parvum ostentation of the nouveau riche are equally deestable to asceticism.” See The Protestant Ethic and the Spirit of Capitalism, Max Weber, Trans. Talcott Parsons, Anthony Giddens (Unwin Hyman, 1930): chap. 5.


The multiplier effect is illustrated by the formulation below:

\[ Y_1 = c_0 + c_1 (Y - T) + I + G \]
\[ Y_1 = \frac{1}{1-c_1} (c_0 + I + G - c_1 T) \]
\[ G = G + \alpha \]
\[ T = T + \alpha \]
\[ Y_2 = \frac{1}{1-c_1} (c_0 + I + (G + \alpha) - c_1 (T + \alpha)) \]
\[ \Delta Y = Y_2 - Y_1 = \frac{\alpha}{1-c_1} (1-c_1) = \alpha \]
\[ \Delta T - G = \alpha - \alpha = 0 \]

1) Neoclassical economics is a general approach in economic analysis focusing on individual or group choice based on preference relations. For foundational works in neoclassical economics, see William Stanley Jevons's *Theory of Political Economy* (1871), Carl Menger's *Principles of Economics* (1871), and Leon Walras's *Elements of Pure Economics* (1874 – 1877).


References


Leviathan, T. H. (1651). The referenced to Leviathan in Hobbes is metaphorical and limited to the representation of Leviathan as the “sovereign” upon whom the populace looks for guidance and benevolent rule.