

Sufficiency Economy Philosophy: A Holistic Approach to Economic Development and Mainstream Economic Thought

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Abstract

The theories of mainstream economics have been criticised for triggering periodic crises and fluctuations, as well as causing resource depletion and environmental degradation. Also, they are accused of worsening the problems of poverty and income distribution, while ignoring the well-being of people and social issues. The Sufficiency Economy Philosophy, bestowed by His Majesty, King Bhumibol Adulyadej, for Thai people in 1997 as a tool to cope with economic adversity, is an alternative way of viewing development. The essence of the Philosophy is that people should act with due consideration, and in moderation. The Philosophy emphasizes moral behaviour by people and society, which mainstream economic thought lacks. Incorporating such human behaviours as moderation and morality into economic decision making is sensible and yields different outcomes from the typical economic framework. Moderation serves as a tool to filter out greed and consumerist behaviour. Morality leads an individual to consider the consequence of his/her actions to others and to society. Together with the reasonableness concept implying non-excessive risk taking behaviour, under the Philosophy an economy will have reduced economic fluctuations, less likelihood of an economic crisis, and sustained quality growth. The Sufficiency Economy Philosophy will make its mark in the economic development arena as an alternative thought system that works for the people and the economy.

Keywords: sufficiency economy philosophy, sustainable development, morality, alternative development strategy

1. Introduction

Conventional economic wisdom is that market mechanisms are believed to be the most efficient way of allocating resources. The self-interested behaviour of economic agents is supposed to be rational, both in choosing between currently available options, and in considering longer term consequences. Conservatives and liberals differ in their views of the role of government — conservatives preferring to leave most of the work to the market, with liberals believing in government intervention. However, both views accept the central role of the market. Nonetheless, recurring economic crises, and many other problems, indicate that this view is faulty. The market economy is based on the profit motive, which is actually the main cause of several economic crises. The 2007-2008 global financial crisis clearly illustrates this issue. Predatory financial practices of commercial banks and real estate brokers ensured temporary high profits for their shareholders, regardless of consequences, and this was exacerbated by innovative financial engineering and high leverage practices of investment banks. Thus, a problem originating in the financial markets — cheap credit and slack lending standards — had large adverse effects on the real economy.

In 1997, Thailand and other Asian countries suffered a major financial meltdown, referred to as the “Tom Yung Kung crisis”. This was a direct consequence of reliance on the market economy, and was precipitated mainly by financial deregulation in Thailand. Financial institutions accumulated short term foreign debts, and used the funds to make long term loans, especially for real estate projects. There were other hazardous lending practices. This led to a banking crisis, a currency crisis, and eventually a debt crisis (Mongsawad and Ariya-apakamol, 2014). In hindsight, it is obvious that the self-interest of decision makers led to the collapse, causing widespread social distress and discontent. The pursuit of profit superseded all other social issues and benevolent concerns.

A second consequence of mainstream economic theory is rapidly increasing wealth inequality. Although there has been some alleviation of poverty, inequality has resulted in more severe social conflict, and is considered to

be the root of other social and political issues. Piketty (2014) analysed data from more than 20 countries, over 300 years, to show that return on capital is much higher than the rate of income growth. That is, labour's share of wealth is declining and wealth has been accumulated by a small group of people. He argued that this is a consequence of capitalism, with politics bearing some of the responsibility.

Development policies have been repeatedly adjusted over the years. At first, focus was on economic growth facilitated by government policy. Later, microeconomic adjustments addressed the issues of poverty, population, labour, environment and health. These are the Millennium Development Goals (MDGs) in 2000, the Millennium Promise in 2005 and the Sustainable Development Goals (SDGs) beyond 2015.

Alternative frameworks of economic development have arisen over the years in response to the failures of the market economy. Sustainable Development concerns natural resources and environmental conservation for future generations. Happiness Economics focuses on aspects of life such as values, freedom, religion and self-security rather than the pursuit of money. Institutional Economics addresses the impacts of the formal and informal roles of institutions on economic behaviour.

This article presents the Sufficiency Economy Philosophy (SEP) as an alternative development strategy, which helps to correct the inadequacies of mainstream economic theory. The methodology of this article is to point out and discuss the strength of SEP concepts that helps fulfilling the deficiency of the mainstream economic theory. A person holding to the Sufficiency Economy mindset considers social outcomes when making a decision. This results in a reduction of dissatisfaction with economic outcomes. Section 2 describes the philosophy; Section 3 discusses SEP as an alternative development strategy; with Section 4 being our concluding comments.

2. Sufficiency Economy Philosophy: Background and Interpretation

“*Setthakit Pho Phiang* (Sufficiency Economy)” first gained attention in Thailand on December 4 1997, amidst the worst economic crisis Thailand had ever experienced, when King Bhumibol Adulyadej delivered his usual birthday address to national audiences. The key messages were that development has to be tempered by prudence, and that self-reliance is a protection against external risks. There was widespread acceptance of the concept, particularly from government officials, because the crash highlighted the need for seeking a different approach to development. Many believed that the previous consumerist approach and reckless growth led to unbalanced development and eventually the crisis. As a result, the government adopted the concept in formulating the 9th National Economic and Social Development plan.

The Philosophy has been developed over the past three decades, as a result of many royal remarks, based on the King's knowledge and practical experience of development projects, and on basic beliefs of Buddhist philosophy (Grossman & Faulder, 2011). The Philosophy guides several aspects of behaviour. The Thai government has adopted SEP as the basis of its National Economic and Social Development Plans, and utilised it in several policies and practices. The Thai private sector has enthusiastically applied it as well. The concept of the SEP has been disseminated through mass media and in academia. Box 1.1 presents an English translation of the SEP.

Box 1.1. English translation of the Sufficiency Economy Philosophy

Sufficiency Economy is a philosophy bestowed by His Majesty King Bhumibol Adulyadej to the people of Thailand through royal remarks on many occasions over the past three decades. His majesty has provided guidance on appropriate conduct covering numerous aspects of life. After the economic crisis, His Majesty reiterated and expanded on his “Philosophy of the Sufficiency Economy” in remarks made in December 1997 and 1998. The philosophy points the way to recovery toward a more resilient and sustainable economy that is better able to meet emerging challenges such as globalization. Sufficiency Economics stresses the middle path as an overriding principle for appropriate conduct by Thai people at all levels, from family to community to country. It calls for national development and administration to modernise in line with the forces of globalization.

“Sufficiency” means moderation, reasonableness, and the need of resilience for protection from the impacts of internal and external changes. Knowledge needs to be applied with due consideration and prudence to achieve this. In particular, great care is needed at every step in the utilisation of theories and methodologies for planning and implementation. At the same time, it is necessary to strengthen the moral fibre of the nation, so that everyone, particularly public officials, academics and business people, adheres first and foremost to the principles of honesty and integrity. In addition, a way of life based on patience, perseverance, diligence, wisdom and prudence is indispensable to create balance, and be able to cope appropriately with critical challenges arising from extensive and rapid socioeconomic, environmental, and

cultural changes in the world.

Source: Office of the National Economic and Social Development Board (2007)

After the ninth national development plan was implemented, the National Economic and Social Development Board (NESDB) set up a Sufficiency Economy Movement Subcommittee to coordinate the SEP campaign. A working group of this subcommittee clarified the description of SEP, to make it easier to understand, and to facilitate its practical application. The result has been a clearer, more uniform interpretation. The working group relied on the King’s speeches on various occasions, and a study of royal development projects. Figure 1.1 presents the overall concept of SEP.

SEP is a balanced framework of thought, with the objective of enabling everyone to move forward with security and cope with constant changes of the economy, society, environment and culture due to the globalization. The United Nations Development Programme Human Development Report (2007, p31). explains SEP as follows:

SEP is not really an “economy” or an “economic theory,” but a guide to conducting life and making appropriate decisions, stressing the middle path as its key principle. It can be applied to an individual, household, community, project, business, nation, or the whole world; it provides a framework for thinking about the balance between efficiency and growth on the one hand, and security and stability on the other.

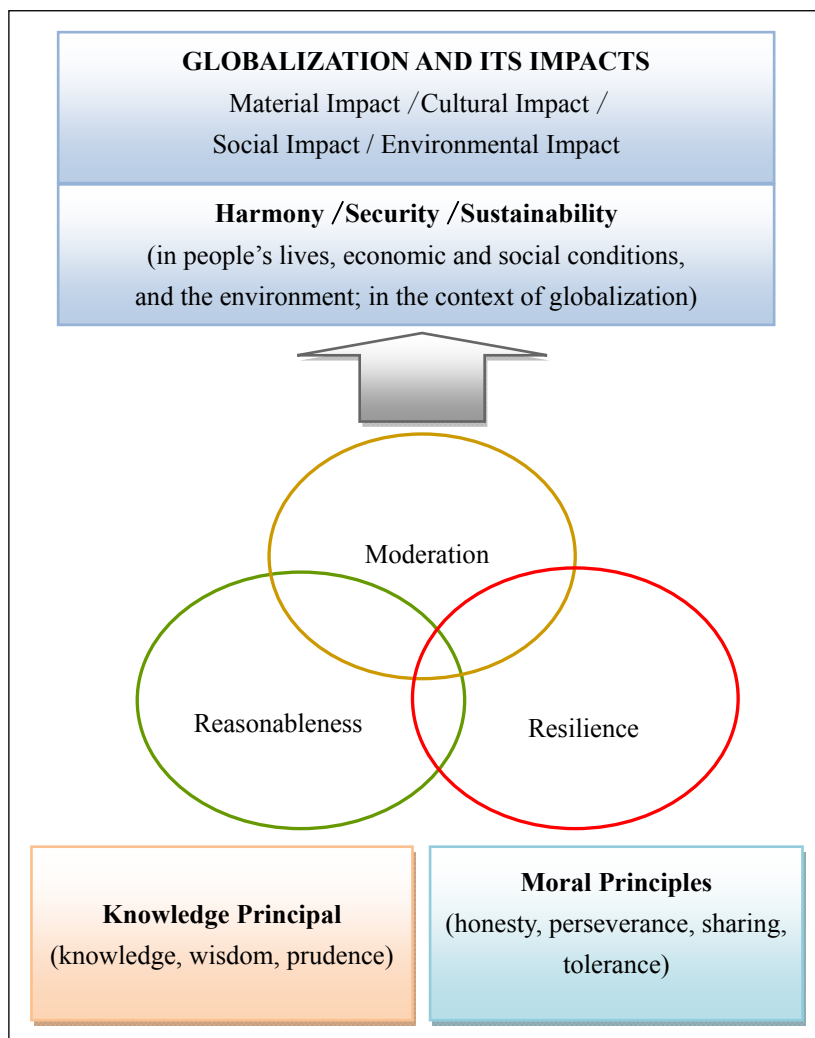


Figure 1. The sufficiency economy content

Source: Thongpakdee (2005)

The Philosophy offers the means for reaching development goals set by ordinary people, businessmen, academics, and policy makers. Its three interconnected components are moderation, reasonableness, and resilience, with knowledge and morality as the two fundamental conditions. Moderation is the avoidance of extremes, for example balancing activities between necessity and extravagance, between tradition and modernization, and between self-sufficiency and dependency. Moderation helps to keep one's behaviour more stable. Reasonableness means considering both short- and long-term consequences of one's action, both to oneself and to others. The result is more prudent decision making, which helps to protect one from external impacts. This is illustrated by the events of the Thai economic crisis when people only considered short-term consequences. This led to instability, which led to a crisis. In the context of globalisation, the third component, resilience is very necessary. This means the ability to ward off any unexpected shock. Since it is not possible to foresee all negative impacts, one needs risk management strategies.

These three components are linked together like interlocking rings, and lead to an approach that achieves a balanced and sustainable state of being. Two other fundamental conditions are required to achieve SEP: the application of knowledge and the moral principle. The application of knowledge is an ability to make decisions using all available information and one's own insight. The moral principle means ethical behaviour, acting with integrity and honesty. It includes perseverance, and being tolerant. According to this official SEP definition and interpretation, it is clear that the Philosophy is not an anti-globalisation or anti-modernisation concept, nor does it encourage the status quo. SEP implies a dynamic and knowledgeable way of leading to prosperity in the context of globalisation and constant variability. SEP has been widely applied throughout Thailand. Its use on human development issues has been well documented in UNDP (2007). This document pointed out that the UNDP and the SEP share a focus on the wellbeing of people. Mongsawad (2010) described real life examples of the applications of SEP in addressing several development issues at different levels of society. Improving wellbeing is the main concern at the individual level. Being self-reliant, building one's own capability and reducing vulnerability are the keys to reducing poverty. At the community level, Mongsawad (2010) pointed out that a community with a SEP mindset has no problem with trust, which is strong social capital. This social capital can be viewed as a type of informal institution that facilitates economic activities while enhancing a sense of harmony. The focus on long-term consequences implies a reduction in environmental degradation. People deliberately use resources in moderation, while conservation is a part of ensuring resilience.

3. Sufficiency Economy Philosophy: A Holistic Approach to Development

As mentioned above, the Sufficiency Economy Philosophy is a way of thinking or a mindset that can guide any decision making and any course of action. It is not "economics" *per se*, or an "analysis of the economy". Nevertheless, its application can be very useful in guiding economic and social development. Its effectiveness is enhanced by the fact that it can be applied to any level of a society. Also, SEP recognizes the importance of trade and globalization, while acknowledging its risks, and facilitating risk mitigation.

3.1 People's Behaviour

The philosophy of the market economy is based on the concept of self-interest. Supposedly, when people act in ways to maximise their personal gains, market mechanisms lead to appropriate resource allocations. The role of policy is then to facilitate the functioning of the market, enforce contracts and ensure the availability of sufficient public goods. However, this concept is naïve. Why should the market benefit society as a whole? Stiglitz (2010) argued that the global economic crisis uncovered the flaws of this type of mainstream economic thought. He pointed out that this materialistic mindset leads to a "moral deficit" that is very difficult to correct. Exploitation, predation and moral depravity are observed in the financial sector, taking advantage of the poor and the middle class. Soros (1998) confirmed that the market economy is flawed, and commented that economic agents' sole purpose is to make money, by any means. Also, they lobby for legislation that allows them to engage in their predatory activities.

Greed is the reason that economic agents engage in excessively risky projects. Warr (2005, p. 57) mentioned that "...The extended boom also produced euphoria — some would say greed — which led business decision-makers and others to take risks they would not ordinarily have accepted." Such excessive, immoral activities lead to economic volatility, crisis, and loss of welfare for society as a whole. A self-interested economic agent, acting without morality, can be destructive, and cause social distress. Therefore, economic analysis should incorporate moral values into the system. Tebillini (2007) confirmed that morality enhances economic performance. He investigated the effects of trust (measuring general trust toward others) and respect (measuring the value transmitted from parents to children). The evidence showed that countries with more widespread trust and respect have stronger institutions or better governance indicators. This was a correlational study, which did not

investigate likely mechanisms. Still, it is evidence supporting the idea that moral value has an impact on economic performance, since having strong institutions implies better economic performance.

Several economists and policy makers have stressed the need for morality in setting policy. Sachs (2011) made a strong statement that an individual needs to have moral values such as compassion, cooperation and altruism to self-fulfil, and successfully live with others in harmony. He encouraged people to have a sense of “mindfulness” so that they need to be in control of their judgements (in making decisions on consumption, saving, work and leisure), while putting aside greed and unlimited craving (Sachs, 2011). “Mindfulness” in people should yield a healthier and more ethical society to live in.

Interestingly, from the viewpoint of a biologist and mathematician, Nowak and Highfield (2012) argued that instead of myopic self-interested behaviour, humanity does need cooperation for evolution. Cooperation in this context is more than working together to achieve the same goal. Rather, it includes helping others, possibly even competitors. Nowak and Highfield categorize cooperation into five types, which are: repetition (or direct reciprocity, in which my behaviour toward you depends on your behaviour toward me); reputation (or indirect reciprocity, meaning that my behaviour toward you depends on your behaviour toward others); spatial selection (when a particular behaviour attracts the same behaviour); multilevel selection (meaning that a group of cooperators might be superior to a group of defectors); and kin selection (if cooperation occurs among relatives). They proved mathematically that some of these types of cooperation could win in the Prisoner’s Dilemma game (Poundstone, 1992). Novak and Highfield believe that reputation or indirect reciprocity has been very crucial for human evolution. This kind of “indirect reciprocity” cooperation is lacking from the standard market economy’s self-interested economic agent’s behaviour. It represents moral values such as altruism, empathy and compassion. Although, clearly, moral value is good for society and we should all practise it, the challenge is how to embed it in the culture. Fortunately, the answer to this quest may lie in neuroplasticity, referring to the ability to change and adapt through experience. Klimecki et al. (2013) argued that people’s preferences can be altered through changed environmental factors, and that a pro-social mindset can be generated. Also, incorporating pro-social behaviour into an economic model and policy would shape society into one in which people want to live. Gladwell (2000), a work on “tipping point,” also shows that culture change can be achieved by changing the mindset of a relatively small proportion of a population. Under the right environment, a certain belief can eventually tip into a vast popularity.

Since morality is a key component of SEP, it is an excellent vehicle for improving society. Morality requires people to be honest, ethical, and considerate. One has to consider consequences to others before engaging in any activity. So, SEP is a “moral filter” for both economic and non-economic activities. The SEP mindset improves society, including the economy, through its morality.

3.2 Toward a Holistic Approach to Development

As mentioned, economic development policy is still a matter of debate. Supporters of a free market and the capitalist system claim that economic efficiency and prosperity are consequences of the market arriving at the right price. However, we know that this results in economic discontent and social distress. SEP states that the market alone is not enough for quality development. It emphasises the concepts of morality, moderation, and social coherence. Therefore, it delivers a comprehensive approach to economic thought and development. SEP requires us to think about social institutions along with the market mechanism for development. The appropriate institutional setting is essential, the most important for quality growth being good governance in the private and public sectors, the social safety net, and social capital.

Economists have been paying more attention to the issue of social capital, referring to trust among members of society, and social networking (Bourdieu, 1986). Social capital increases peace and harmony in society, and increases efficiency by reducing the need for transactions (Woolcock, 1998; Putnam, 2000; Coyle, 2011, and Halpern, 2011). Furthermore, there is evidence that strong social capital contributes to many aspects of quality development (Fukuyama, 1995; World Bank, 2000, and Helliwell, 2008). Apinunmahakul & Mongsawad, (2013) empirically investigated wellbeing in Thailand, and found that several non-economic factors, including social capital, contribute significantly to the life satisfaction of Thai households. These studies support the multifaceted nature of quality of development. One should not consider it only as an economic issue. Incorporating social capital into development is the essential issue suggested by SEP.

Economic studies indicate that good governance in the public sector establishes strong property rights, lower transaction costs, and less corruption (North, 1990). Good governance in the private sector, i.e. corporate governance, requires institutions that help correct principal-agent problems and improve the efficiency of investment. Moreover, good corporate governance leads to more prudent investment decisions, and better

business management (World Bank, 2000). Rodrik (2007) confirmed this through a comprehensive investigation of global economic growth, demonstrating a positive relationship between good governance and quality growth, and thereby validating the SEP approach. Mongsawad and Ariya-apakamol (2014) provides evidence that SEP's stress on good governance in the business and public sectors has improved the sustainable development of a country. The financial sector, and business enterprises in general, have become stronger since the Tom Yom Kung crisis of 1997. The lessons from this crisis are well learnt by private companies, who have adopted the SEP. An SEP Award has been accorded to many businesses for the implementation of SEP principles in business management, operation and planning. On the macro side, the Bank of Thailand employs an inflation targeting scheme that is consistent with SEP, resulting in steady and low inflation in Thailand (Bank of Thailand, 2009). The SEP mindset has greatly improved Thailand's risk management at the macroeconomic level. From the discussion in this section, one can see that SEP emphasises morality, good governance, and social coherence. Therefore, it delivers a holistic approach to economic development. It provides a guideline for balanced and sustainable development while respecting people's choices, and facilitating market mechanisms in a globalization context.

4. Conclusion

Economic development policy determines whether people achieve wellbeing. Since 1970, one of the most influential economic theories has been the market economy concept, in which an unfettered market is believed to be the most efficient way to allocate resources and economic activity is driven by self-interested behaviour. The policy maker's role is limited to supporting the market, ensuring that contracts are honoured, and facilitating market activity. Within this general framework, there is a range of viewpoints from growth-driven policy, the "big push" or public-led policy, to the laissez-faire. All share the assumptions that self-interested economic decision makers are rational in their decisions, both when selecting among choices at the one time, and when considering future consequences. This philosophy has led to greatly increasing economic discontent and social chaos. Crises occur more often and cause more harm to ordinary people. Inequality and social conflict are getting worse. This demonstrates that there are problems with the policy. Mainstream economic thought has no answers.

The Sufficiency Economy Philosophy is an alternative thought system that overcomes the shortcomings of mainstream economic thought. The Philosophy is a well-blended concept of three core values: moderation, reasonableness and resilience, and two conditions of morality and knowledge. This concept yields a very potent guide for individual decisions. A mindful individual both makes wise decisions for self-benefit, and also benefits others and society. The Philosophy works as a moral filter for an individual before engaging in any economic or non-economic activities. With the Philosophy mindset, institutions are strong, and function well. This is one of the key determinants of sustained and balanced development. The Philosophy is a holistic approach to deal with all development issues. This approach disagrees with mainstream economic thought on human individual and social behaviour. Its viewpoint is supported by considerable research (Mongsawad, 2010; Apinunmahakul & Mongsawad, 2013; Mongsawad & Ariya-apakamol, 2014). People are capable of learning, and can change their behaviours toward the creation of a serene and harmonious environment for everybody. The right development policy contributes enormously in facilitating this. Sufficiency Economy Philosophy is an unconventional approach that one should consider as an alternative way to reach that goal.

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