

# **The Economics of Enough: Thailand's 'Sufficiency Economy' Debate**

**Peter Warr**

Australian National University

*“To be a tiger is not important. The important thing for us is to have a sufficiency economy, which means to have enough to survive.”*

H.M. King Bhumipol Adulyadej

## **Introduction**

Since the 1970s, Thailand's King, H.M. King Bhumipol Adulyadej, has delivered a number of highly influential speeches whose content has come to be known within Thailand as the 'Sufficiency Economy' philosophy. The ideas contained in His Majesty's speeches have had a deep intellectual impact within Thailand. Today, essentially all major institutions in the country claim to be adopting 'Sufficiency Economy' principles, but there are widely divergent views, even within Thailand, about what the principles mean and how they should be applied.

The issues raised in His Majesty's speeches on the Sufficiency Economy have broad applicability, and not just for Thailand. The purpose of this paper is to offer an 'outsider's' understanding of some aspects of these concepts. There is no suggestion that the interpretation presented here is comprehensive. There are several dimensions to the

Sufficiency Economy debate, only some of which are addressed by this paper. There is also absolutely no suggestion that the thoughts offered in this paper are *the* correct way to understand the King's thoughts. That would be highly presumptuous. It is hoped merely that the paper offers *one* way of understanding some aspects of the Sufficiency Economy discussion, which might be of interest for others in reaching their own understanding of these important issues.

The paper attempts this by looking at the Sufficiency Economy in the following four ways:

1. Extracting key themes from Royal speeches on 'Sufficiency Economy'
2. Relating these concepts to Buddhist philosophy
3. Relating these concepts to economic events in Thailand
4. Relating these concepts to recent developments on the economics and psychology of 'happiness'.

The following four sections of the paper adopt each of these four perspectives in turn. The theme of this paper is that the essence of the Sufficiency Economy approach reflects a basic human wisdom that is supported by fields seemingly as different as Buddhist philosophy, experimental psychology and modern economics. Moreover, it is a message that is relevant not only for Thailand, but for other countries as well and deserves to be studied closely by Thais and non-Thais alike.

## **1. Key Themes from Royal Speeches on 'Sufficiency Economy'**

In early December of each year, H.M. King Bhumipol delivers a major speech on the

occasion of his birthday. These speeches are reported widely in the Thai press and are studied carefully. Taxi drivers, school children and academics listen to the radio or television broadcasts of these speeches and reflect upon them. Most, but not all, of the speeches associated with the Sufficiency Economy concept first appeared in this format and were subsequently elaborated upon by the King in graduation addresses to students and in other forums. The King's first major speech on the subject was apparently delivered in 1974, but the central speech was his birthday speech in December 1997. It will be important for my account that this speech was delivered shortly after the onset of the 1997 Asian financial crisis, which, as everyone knows, began with the collapse of the international value of the Thai baht.

In these speeches, five central themes can be discerned: the importance of establishing sensible, non-excessive, material goals; the importance of avoiding unnecessary risk in the pursuit of material aspirations; the desirability of attaining self-reliance; doing all this while still maintaining concern for the protection of others; and also not losing attention to the non-material aspects of life. I will provide below quotations from the King's speeches and references to his other writings which illustrate each of these five themes.

The relevance of these Sufficiency Economy themes can be understood at several levels. At the level of the individual, they provide guidance for a sensible approach to economic life. They provide also helpful guidance at the firm and community level. Finally, they are highly relevant at the national level for a country struggling to adjust to a rapidly changing global environment.

**a. Establishing sensible (non-excessive) material aspirations...**

*'...Development of the nation must be carried out in stages, starting with the laying of the foundation by ensuring the majority of the people have their basic necessities through the use of economical means and equipment in accordance with theoretical principles. Once a reasonably firm foundation has been laid and in effect, higher levels of economic growth and development should be promoted...'*

18 July 1974

*'...no matter what others say –whether they will accuse Thailand of being old-fashioned or obscurantist. So long as we have enough to live on and to live for – and this should be the wish and determination of all of us – without aiming for the apex of prosperity, we shall already be considered as the top in comparison with other countries in the present world...'*

4 December 1974

A book entitled *Mahajanaka*, written by H.M. King Bhumipol, described the destructive effects of (a) *greed* and (b) *ignorance* or delusion.

1992

*'To be a tiger is not important. The important thing for us is to have a sufficiency economy, which means to have enough to survive.'*

4 December 1997

*'I may add that full sufficiency is impossible. If a family or even a village wants to employ a full sufficient economy, it would be like returning to the Stone Age... This sufficiency means to have enough to live on. If everyone has enough to live on, everything will be all right.'*

1998

**b. ... while avoiding excessive risk...**

The King provided the illustrative example of a diversified farm with thirty percent of land for a pond to collect water to be used for cultivation in the dry season, and to raise fish; thirty percent for rice cultivation sufficient for all year round home consumption; thirty percent for integrated field and garden crops, and fruits; and ten percent for housing and other activities such as livestock enclosures, mushroom nursery, and roads.

1994

**c. ...combined with self-reliance...**

*'This sufficiency means to have enough to live on. Sufficiency means to lead a reasonably comfortable life, without excess, or overindulgence in luxury, but enough. Some things may seem to be extravagant, but if it brings happiness, it is permissible as long as it is within the means of the individual...'*

*'Some people translate 'sufficiency' from the English as: to stand on one's own feet... This means standing on our own two legs planted on the ground, so we can remain without falling over, and without asking others to lend us their legs to stand on...'*

1998

**4. ...with concern for the protection of others...**

*'Sufficiency Economy is a philosophy that stresses appropriate conduct and way of life while incorporating moderation, due consideration in all modes of conduct, and the need for sufficient protection from internal and external shocks.'*

21 November 1999

**5. ... and with attention to the non-material aspects of life**

*'Progress is not just about planting enough rice to eat. There must be enough to create schools, even works of art, so that Thailand prospers in every way, with no hunger or poverty, food for body and soul, and many other things.'*

and

*'The driving force for development has to come from within, based on accumulation of knowledge. In summary: Self-reliance. Moderation. Resilience. Inner dynamic. Knowledge.'*

2003

## **2. Relationship to Buddhist Philosophy**

Since H.M. King Bhumipol is a practicing Buddhist, and since Buddhist philosophy has a great deal to say about economic life, especially as it relates to the individual, it would be surprising if the King's speeches on this subject were not influenced by Buddhist thinking. At the core of the Buddhist understanding of human suffering is the three poisons:

- greed;
- hatred; and
- ignorance.

Greed arises from a distorted perception of the happiness that can be derived from greater material wealth. Hatred or anger arises when these distorted aspirations are unrealized or frustrated. All this is supported by a misconception about the nature of the self - as an isolated, independently and inherently existing entity - which is the core of the Buddhist notion of delusion or ignorance. The presence of these three poisons lead to an endless vicious cycle of frustrated pursuit of happiness from material things – *samara*.

The antidotes to these poisons are the recognition of:

- the *unsatisfactoriness* of purely material attainments,

- the *impermanence* of human life itself and the pleasures that material attainments can provide; and

- the illusory nature of our concept of the self, also referred to as *emptiness*.

Together, these three antidotes lead to wisdom in one's own life and compassion towards others. The relation to the five themes of the Sufficiency Economy philosophy, as summarized above, is obvious.

### **3. Relationship to Economic Events in Thailand**

Thailand's economic performance over the past four decades is summarized in Figure 1, showing the level of real GDP per capita in each year (vertical bars) and its growth rate (solid line) for the period 1968 to 2007. The figure distinguishes four periods of Thailand's recent economic history, drawing on Warr (2005). These periods are as follows, with period average annual rates of growth of real GDP per person appearing in square brackets [.]

I – Pre-boom: 1968 to 1986 [3.9 per cent per year].

II – Boom: 1987 to 1996 [8.0 per cent per year].

III – Crisis: 1997 to 1999 [-3.6 per cent per year].

IV – Recovery: 2000 to 2007 [4.3 per cent per year].

During period I, from 1968 to 1986, the average annual growth rate of Thailand's real GNP was over 6 per cent, compared with an average of 2.4 per cent for low and middle-income countries (World Bank 1998). Then, over the decade 1987 to 1996 (period II) the Thai economy boomed, growing at 9.5 per cent in real terms. Over this

decade, the Thai economy was the fastest growing in the world and this is when Thailand came to be called, in some quarters at least, Asia's 'fifth tiger', following Singapore, Hong Kong, Korea and Taiwan.

The stability of Thailand's growth over the long period of economic expansion ending in 1996 was remarkable. Not a single year of negative growth of real output per head of population was experienced over the four decades from 1958 to 1996, a unique achievement among oil importing developing countries. Thailand's performance was often described as an example others might emulate. Its principal economic institutions, including its central bank, the Bank of Thailand, were often cited as examples of competent and stable management.

The crisis of 1997-99 (period III) reversed these assessments. Domestically, the economy was in disarray: output and investment contracted; poverty incidence increased; the exchange rate collapsed, following the decision to float the currency in July 1997; the government had been compelled to accept a humiliating IMF bailout package; the financial system was largely bankrupt; and confidence in the country's economic institutions, including the Bank of Thailand, was shattered. Internationally, Thailand was now characterized as the initiator of a 'contagion effect' in Asian financial markets, undermining economic and political stability and bringing economic hardship to millions of people.

The economic damage done by the crisis of 1997-99, and the hardship that resulted were both substantial. The crisis eroded some of the gains resulting from the economic growth achieved during the long period of economic expansion, but it did not erase them. At the low point of the crisis in 1998 the level of real GDP per capita was

almost 14 per cent lower than it had been only two years earlier, in 1996. Nevertheless, because of the long period of sustained growth that had preceded the crisis, this reduced level of real GDP per person in 1998 was still higher than it had been only five years earlier, in 1993. It was three and a half times its level in 1968, seven times its level in 1951.

King Bhumibol's December 1997 speech was delivered at a time when the magnitude of the economic devastation of the crisis was acutely apparent. His Majesty was pointing out that the causes of the crash were to be found in the economic boom that had gone before it. As the boom progressed, the thinking of Thai people had changed. They were led increasingly to take excessive risks in the pursuit of economic gain, thinking that the boom would continue indefinitely. This took many forms, including: the willingness of previously conservative Thai banks to borrow short-term abroad in foreign currency in order to finance long-term lending domestically in Thai baht; speculative real estate investments by ordinary Thai people; and excessive specialization in lucrative cash crops, financed by borrowing, on the part of many Thai farmers, leading to high levels of indebtedness and for large numbers of these farmers, the loss of their land.

This behavioural pattern of excessive risk taking during periods of prolonged economic boom is not unique to Thailand. In the context of the United States, it was subsequently called 'irrational exuberance' by Alan Greenspan, then chairman of the US Federal Reserve (Shiller 2000). More recently, it has been recognized as an underlying cause of the global financial crisis, originating in the United States and Western Europe, and erupting in late 2008.

Another way of describing 'irrational exuberance' is being captured by greed.

According to my interpretation, in his pivotal speech of December 1997 King Bhumibol was explaining the economic events that had just occurred in Thailand, drawing upon the insights of Buddhist philosophy. His message pointed out that when we allow ourselves to be carried away by greed, a catastrophe is likely. This was not only a way of understanding what had just happened, but also suggested a way of avoiding such mistakes in the future.

It is important to note that the Sufficiency Economy message is *not* that economic growth is unnecessary, or that it is incapable of producing improvements in human welfare. The message is that excessive emphasis on this goal, to the exclusion of other, even more important matters, can lead to suffering. In short, it is an argument for the Middle Way.

#### **4. Relationship to Recent Developments in Economics and Psychology**

Economists and other social scientists have lately become interested in the determinants of human happiness, based largely on the analysis of large-scale surveys of self-rated happiness. Major contributions to this literature have included Easterlin (2004), Layard (2005) and Frey (2008).

Two central empirical observations lie at the heart of this literature. The first observation is based on time series data for particular high income countries. In the richest countries, the only ones for which long time series of data are available, increases in average incomes per capita over fifty years have produced no discernable increases in average levels of reported happiness.

The second observation is cross-sectional - based on looking across countries at a particular time. If countries are arranged by average income per capita in each country, then when we look across these countries at average levels of self-rated happiness, as income increases, self-rated happiness at first increases, then reaches a peak at an income per person of about US\$20,000 to \$30,000. This is roughly half the income per person of the richest countries. Beyond this level of income, further income increases produce no further discernable increases in reported happiness.

This second observation is illustrated in Figures 2 and 3, drawing on data from the World Values Survey. Figure 2 shows data on self-reported 'Life satisfaction', and Figure 3 shows self-reported 'Happiness'. Unfortunately, Thailand is not one of the countries included in the World Values Survey data set available for this analysis. Each figure shows the author's estimated regression equation, based on the data available for these countries. The estimated value of 'Life Satisfaction' and 'Happiness' that would be predicted for Thailand based on Thailand's actual level of income per person and the estimated relationship for the countries for which data are available is shown by the square data point in each diagram.

Thailand is included in the Roper Reports data set on self-reported happiness and the data are shown in Figure 4. It is notable that Thailand's level of self-reported happiness is well above the regression line estimated from the data estimated for all countries other than Thailand.

Two kinds of hypotheses have been offered to explain these empirical observations. First, individuals adapt psychologically to higher incomes, becoming accustomed to affluence, a phenomenon known as the 'hedonic treadmill'. Second, at low

incomes people spend on necessities, such as food, basic shelter, education for their children and medical care. At higher incomes, they spend increasingly on status / positional goods. The crucial point is that if all members of the society obtain these positional goods there is no net gain in 'status' for anyone and hence no net gain in happiness. The analogy is that all ships in the harbour rise as the tide comes in, and their relative positions (read: status) remain the same. If one individual (or group) does gain in status it is at the expense of someone else's status.

The implication is that beyond a certain level of income, economic growth fails to produce further increases in happiness. Indeed, among individuals who have met their basic needs, further improvements in happiness depend primarily on social factors, including family and community relations. If the pursuit of material gain distracts from proper attention to these factors it may actually reduce happiness.

Experimental data from the Harvard psychologist Daniel Gilbert provide further insights into these issues. Gilbert has studied what he calls 'affective forecasting'. When individuals make decisions, they attempt to predict the happiness or unhappiness they will experience under alternative future states of the world. He finds that when we do this, we consistently make the same kinds of errors, again and again, a phenomenon he calls 'impact bias'. When we imagine how it would feel under some favourable future state of the world, we over-estimate the degree of happiness we will experience from it. Conversely, when we imagine how it would feel under some unfavourable condition, we over-estimate the amount of suffering it would involve.

The interpretation that Gilbert offers is that the mind eventually adjusts to whatever happens, favourable or unfavourable, so that the difference in the way we

actually end up feeling in favourable or unfavourable circumstances is moderated. But for some reason (not explained by Gilbert) we do not fully recognise that the mind has this capacity, so we consistently make the same kinds of mistakes. We consistently over-estimate the importance, in terms of the feelings of happiness that we will actually experience, of having good things happen and of avoiding bad things.

The point is that our decisions are based on what we *think* we will feel in the future, not on what we will *actually* feel. The result is that we are *greedier* to ensure that favourable external circumstances are experienced in the future than we should be; and we are more *fearful* to avoid unfavourable external circumstances than we should be. The modern financial market, alternating between periods of excessive greed and excessive fear, is an illustration of this phenomenon in action.

## **5. Conclusions: The Economics of Enough**

This paper has argued that while the ‘Sufficiency Economy’ philosophy has many components, one component is a clear application of Buddhist philosophy. It is essentially an argument for the moderation of the Middle Way. Recent events in Thai history show the wisdom of this approach and the dangers of disregarding it. This set of ideas is strongly supported by recent developments in economics and psychology. A review of recent Thai history helps in understanding the timing of H.M. King Bhumibol’s critically important speeches on the subject.

In most countries, public policy has yet to catch up with these insights. The human value of economic growth in the rich countries is greatly over-estimated. In the

poorest countries, economic growth is crucial. In middle income countries like Thailand, still well below the levels of income per person at which the gains from further increases in national income are exhausted, economic growth is capable of generating genuine improvements in happiness, but diminishing returns applies. Other things are also important and it is easy to over-estimate the benefits that will actually accrue from improvements in material circumstances. Wisdom is needed to keep these matters in proper perspective and this wisdom is what the Sufficiency Economy philosophy is all about.

## References

Easterlin, Richard A. (2004). 'The Economics of Happiness', *Daedalus* vol. 133, no. 2, 26-33.

Frey, Bruno S (2008). *Happiness: A Revolution in Economics*, MIT press, Cambridge, Mass.

Gilbert, Daniel (2007). *Stumbling onto Happiness*, Kindle Books, New York, NY.

Layard, Richard (2006). *Happiness: Lessons from a New Science*, Penguin, Harmondsworth, Middlesex.

National Economic and Social Development Board (2005). 'Sufficiency Economy: An Introductory Note', Bangkok.

Roper Reports. Data available at:

<http://www.gfknop.com/customresearch-uk/expertise/consumertrends/rrw/index.en.html>

Shiller, Robert J. (2000). *Irrational Exuberance*, Princeton University Press, Princeton, NJ.

United Nations Development Program (2007). *Thailand Human Development Report 2007: Sufficiency Economy and Human Development*, UNDP, Bangkok.

Warr, Peter (2005). 'Boom, Bust and Beyond', in Peter Warr (ed.) *Thailand Beyond the Crisis*, Routledge, London, 1-65.

World Bank (1998). *World Development Report, 1998*, Oxford University Press, New York, NY.

World Values Survey. Data available at:

<http://www.worldvaluessurvey.org/>

**Figure 1 Thailand: Real GDP per capita and its annual growth rate, 1968 to 2007**

*Source:* Author's calculations, using data from National Economic and Social Development Board, Bangkok.

## **Figure 2 Life Satisfaction and Income Per Person Across Countries (World Values Survey)**

*Source:* Data from World Value Survey, available at:

<http://www.worldvaluessurvey.org/>

Regression equation from author's calculations using these data. Thailand data point (shown by square symbol) estimated from the regression equation, not from actual data on life satisfaction for Thailand.

### **Figure 3 Self-reported Happiness and Income per Person Across Countries (World Values Survey)**

*Source:* Data from World Value Survey, available at:

<http://www.worldvaluessurvey.org/>

Regression equation from author's calculations using these data. Thailand data point (shown by square symbol) estimated from the regression equation, not from actual data on happiness in Thailand.

## **Figure 4 Self-rated Happiness and Income Per Person Across Countries (Roper Reports)**

*Source:* Data from Roper Reports, available at:

<http://www.gfk.com/customresearch-uk/expertise/consumertrends/rw/index.en.html>

Regression equation from author's calculations using these data. Thailand data point (shown by square symbol) is from actual data on happiness in Thailand.