

Management Forum

Sufficiency Economy for Sustainable Utility Maximization



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Short-Term Utility Maximization and Long-Term Satisfaction

Economic theory emphasizes on individual's consumption for utility maximization or the highest level of satisfaction, which finally becomes demand. The utility simply refers to the satisfaction or pleasure that a consumer experiences from a good or service. The satisfaction varies from individual to individual according to each individual's preference. The theory of Consumer Choice states that a consumer could enjoy a greater utility by choosing a bundle of goods or services that provides the highest utility given the limited budget resource. The theory relies on a number of assumptions including that each person is more satisfied with a greater quantity of consumption. Preference does influence consumer optimal choice because it impacts level of utility from consumption of each good or service. There are a number of factors determining preference; caste, culture, and individual taste (Fehr & Hoff, 2011).

The assumption 'more quantity of consumption is preferred to less' is not always applicable in the real situation. Consuming two breads may be more preferable than eating only one bread. However, consuming 50 pieces of bread at one time could cause that person overeating and feel less satisfied than eating only two breads. It implies that maximizing consumption quantity does not lead to utility maximization. Moreover, the theory does not indicate whether consumer optimal choice leads to long-term utility maximization. Besides budget and time as the resources, individual utility maximization should be made subject to cost to the society and environment as well. Therefore, the optimization has to include those factors for sustaining the utility. Stressing the importance of individuals, society and environment, Sufficiency Economy provides a concept of balanced development strategies, concerning wisdom and integrity with the force of globalization (Khamman, 2012).

Sufficiency Economy and Sustainability

Sufficiency Economy Philosophy was initiated by His Majesty the King Bhumibol Adulyadej of Thailand more than four decades ago. There are three pillars and two conditions for living the life sustainably (The Chaipattana Foundation, 2016). The three pillars include Moderation, Reasonableness and Self-Immunity and two conditions are knowledge and integrity (Figure 1).



Figure 1: Sufficiency Economy (SEP)

Moderation: The concept of moderation is ‘not doing something too little or too much at the expense of oneself or others’. It implies that production and consumption has to be at a moderate level.

Reasonableness: The decision-making must be made rationally with consideration of all factors involved and possible outcomes.

Self-Immunity: There must be a well-prepared plan or action to cope with all possible impacts may occur in the future.

All decisions are actions has to be carried out depending on two conditions.

Wisdom Condition: Able to use all-round knowledge in the relevant fields and carefully apply that knowledge in the operation.

Integrity Condition: Comprising of honesty, patience, perseverance, and intelligence.

Following the Middle Path, all the action needs to be the most appropriate way avoiding the extremes of luxury and asceticism.

Sufficiency Economy for Utility Maximization: Consumption for Long-Term Satisfaction

Subject to the wisdom and integrity, ‘consumption’ refers to high-quality consumption. Not only for the short-run utility maximization restricting merely individual’s satisfaction on goods or services, but also long-term highest utility concerning of others, society and environment. The middle-path concept settles the additional condition; consumption is in the basis of no hurting anyone, including oneself and others. At the same time, the chosen bundle must meet the integrity, reasonableness and self-immunity as a strategy for minimizing risk.

Utility Maximization

Theory of Consumer Choice for utility maximization depends on individual's satisfaction, which is determined by preference. Individuals possibly do not apply true knowledge and integrity in making decision on the goods and services. For this reason, the optimization might not be sustainable in the long-run. If a person takes Sufficiency Economy concept into account, his long-term utility maximization for high-quality of life and sustainability needs two crucial notions, no hurting oneself and no hurting others.

Assume that a person plans to gain maximum utility by choosing alcoholic drink. Consider if he simply makes consumption decision based only on his own satisfaction, he certainly spends on that alcoholic drink. Without concerning of hurting himself and others, that person and society possibly receive negative impact. Alcohol causes the drink to get drunk. In addition, overdrinking alcoholic drink causes health problems, including cirrhosis and cancer. It implies that this person has to exchange his utility with negative effect from alcohol consumption. Choosing to consume alcoholic drink is a decision to hurt himself.

As mentioned, a drunk person possibly causes a high negative externality¹ to others. The negative effect is illustrated in Figure 2. If that person drives when he is intoxicated, there is possibly alcohol-related crashes and then it could turn out to be severe damages to others' property, injury and death. Furthermore, drinker's ill-health becomes a burden for public health service. Government has to spend budget for healthcare instead of allocating budget in more efficient projects. It implies that drinking alcohol does hurt others in the society.



Figure 2: The Negative Effect of Alcohol on Health

Source: Rosser-Health. *Alcohol A Dangerous Drug*. Retrieved from

<https://rosser-health-and-pe.wikispaces.com/Alcohol+A+Dangerous+Drug>

Note: ¹An externality is a consequence of an economic activity experienced by unrelated third parties. It can be either positive or negative.

Cost as the Constraint

If an individual chooses to consume alcoholic drink, his budget is allocated less efficiently since the choice of consumption causes negative externality to both drinker and others. In reality, this person underestimates the cost of drinking alcohol he confronts. The cost includes not only the price of the alcoholic drink, but also the deteriorating health, risks to get into accidents and critical illness, and opportunity cost (the gain from spending this budget on a better alternatives). Underestimated budget is the cause of over-consumption of alcoholic drink. The negative effect truly indicates that consumption does not come up with long-term satisfaction.

Sufficiency Economy for Utility Maximization Subject to Scarce Resources

The goal of implementing the Sufficiency Economy Philosophy is to create a balanced and stable development, which is also applicable for individual level. Consumption could be optimized by using moderation concept. At a moderated level, the consumer gains both an appropriate utility and a good quality of life (Payutto, 2014). So the good and quantity to consume has to make that person satisfied as well as being healthy. Among the three pillars, reasonableness requires a person to justify the choice of consumption by using academic approach or true knowledge (Royal Thai Consulate, 2015). If that person maximizes utility by this approach, together with self-immunity (or risk minimization), he will not optimize the choice by choosing alcoholic drink. Taking wisdom and integrity condition, that person will think of others, society and environment for optimization, for instance, preferring to buy environmental-friendly goods and not to consume anything causing negative externality to others. For this reason, resources could be used in the most efficient way and sustainably. According the Middle Path, all the conducts have to be in an appropriate level. *Therefore, optimizing consumption by applying Sufficiency Economy is to choose the goods or services that give benefit and do not harm oneself and other parties, society and environment. The practice maximizes utility and welfare in the long-run.*

Taking Sufficiency Economy Concept in Individual's Preference

As mentioned, factors influencing individual's preferences include taste, caste, and culture. *To maximize one person's utility, he needs to value the Sufficiency Economy Philosophy in the mindset.* Though individual taste depends on personal character, caste is affected by social institution and educational background whereas culture is also influenced by factors including society.

Social Institution substantially impacts individual preference since it consists of society's beliefs, customs, practices and behaviors. The most fundamental social institution is family. Family largely influences the way of thought, lifestyle, behavior and individual's optimal choice. A person could learn from his family since he was an infant. Parents and senior members need to teach and set a good example to the young for the way to be self-reliant and live a balanced life.

In school, sufficiency Economy Concept could be taught, not only in classrooms, but also outdoor, through practical and participatory method. Additionally, students should learn saving by keeping income-expenditure balance sheets as tools to sustain their lives (The Government

Public Relations Department, 2015). The most important thing is that culture of integrity has to be created together with academic knowledge.

People with different cultural backgrounds have different expectations, norms and values, which in turn have the potential to influence their judgments, decisions and their subsequent behavior (Briley, 2007). If Sufficiency Economy Philosophy is widely implemented and applied practically among people in the society, especially reference groups and opinion leaders, people would be attracted to make use of Sufficiency Economy concept in daily life and activities.

In order to sustain in the long-run, Sufficiency Economy Philosophy has to be taken into the mindset of people for long-term utility maximization. With the highest efficiency of the use of resources concerning other parties, there would also be gains of sustainability in the economy, society and environment.

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