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

บทคัดย่อ

บทความนี้เป็นการอธิบาย เศรษฐกิจพอเพียง ในเชิงทฤษฎีเศรษฐศาสตร์ในนิยามทั่วไป เศรษฐกิจพอเพียงเน้นแนวทางแบบพออยู่พอกินและการพึ่งพาตนเองในทุกด้านของชีวิตประจำวัน ในเชิงทฤษฎีเศรษฐศาสตร์จุลภาค เศรษฐกิจพอเพียงไม่สนับสนุนการบริโภคแบบฟุ่มเฟือยที่แสดงถึงการใช้จ่ายแบบสุรุ่ยสุร่ายและเกินเหตุ ในเชิงทฤษฎีเศรษฐศาสตร์มหภาค เศรษฐกิจพอเพียงพยายามปกป้องประเทศชาติบ้านเมืองจากผลกระทบ จากภัยเศรษฐกิจจากภายนอก กระแสผลกระทบจากภายนอกเป็นผลกระทบในเชิงลบ อันเนื่องมาจากการเปลี่ยนแปลงทางด้านเศรษฐกิจที่พาให้โครงสร้างของตลาดไม่สมบูรณ์ ความไม่สมบูรณ์นั้น เนื่องมาจากความล้มเหลวของตลาด อาทิ การแข่งขันที่ไม่สมบูรณ์ การลำเอียงด้านราคาและข้อมูลที่ไม่สมดุล เศรษฐกิจพอเพียงเป็นทฤษฎีเศรษฐศาสตร์ที่จัดไว้ในกลุ่มเศรษฐศาสตร์ ด้านการพัฒนาและสวัสดิการสังคม

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*.

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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 praeter necessitatem* (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 development¹. The beauty of Sufficiency Economy is its simplicity in formulation and approach. It is an economic theory belonging to the field of welfare² 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 goods³. 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 Paretian economists. Sufficiency Economy speaks against consumerism of the type described by Thorstein Veblen as unhealthy and self-defeating⁴.

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 *sammā* or "truthfulness:" (1) *sammā dhitti*, (2) *sammā sanggappa*, (3) *sammā vāṇa*, (4) *sammā gammanā*, (5) *sammā āchāra*, (6) *sammā vāyama*, (7) *sammā sati* and (8) *sammā samādi*. *Sammā dhitti* 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 (*samudhaya*); suffering may be eliminated (*Nirodha*); and there is an empirical method of eliminating suffering (*Magga*). The second element of honesty is *sammā 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 gammanta* or truthfulness in conduct and action. This fourth element of honesty consists of three sub-element: *panadhipata* (taking the life of another), *adhinnaadhana* (theft), and *gamesumichajara* (infidelity). The fifth element of honesty is *samm? 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 perseverance⁵. The seventh element of honesty is *samma sati* or truth of consciousness. There are four sub-elements of consciousness: *gaya-anoupasana* (know that this body is not permanent), *vedhana-anoupasana* (know that happiness, sadness and detachment are not permanent), *chitta-anoupasana* (know that emotion is not permanent), and *dhamma-anoupasana* (know that even dhamma is not permanent). Lastly, honesty requires that a person has *samma*

samati 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 *oupasama* (detachment from that which destroys peace of the inner self)⁶. 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 consumption⁷. 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.

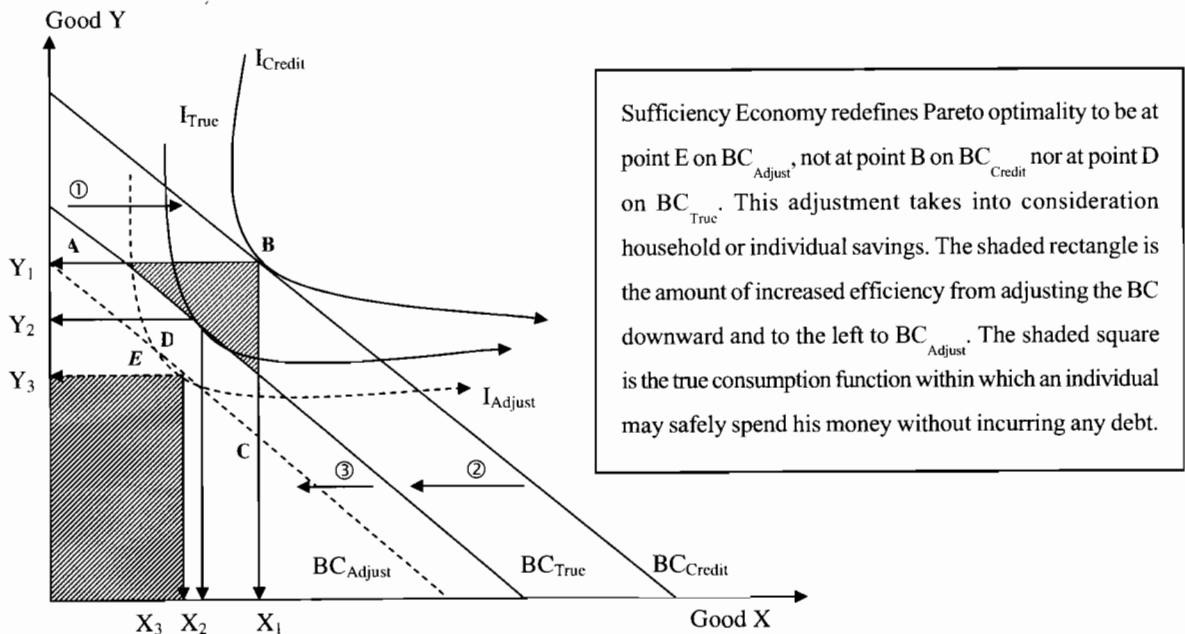


Figure 1. Sufficiency Economy redefines Pareto optimality (E).

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: $\Sigma(P_2 - P_3)$. The income of individuals is represented by y , and the aggregate income is Y . Aggregate savings in an economy is: $(Y - G) - \Sigma(|P_2 - P_3|)$, where G is government taxes. Therefore, aggregate savings can be written as: $Y - \Sigma G = \Sigma(|P_2 - P_3|)$. The national savings could be written as: $\Sigma(Y - \Sigma G)$. It could be argued that the new Budget Constraint ($BC_{Adjusted}$) 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 GDP⁸. 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 economics⁹, 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 magna opus of economists such as Pareto, Edgeworth, and Fisher, as well as other neoclassical theorists in the 1930s and 1940s: Arthur L. Bowley (1924)¹⁰, John Hicks and Roy G.D. Allen (1934)¹¹, Abba Lerner (1932, 1934, 1944)¹², Nicholas Kaldor (1939)¹³, Tibor de Scitovsky (1941, 1942)¹⁴ and John Hicks' work, *Value and Capital* (1939)¹⁵. Sufficiency Economy is rationalized in the same way as the Paretian approach as expressed in the masterful efforts of Maurice Allais (1943)¹⁶, Oskar Lange (1942)¹⁷ and Paul Samuelson (1947)¹⁸.

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 disprove 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.

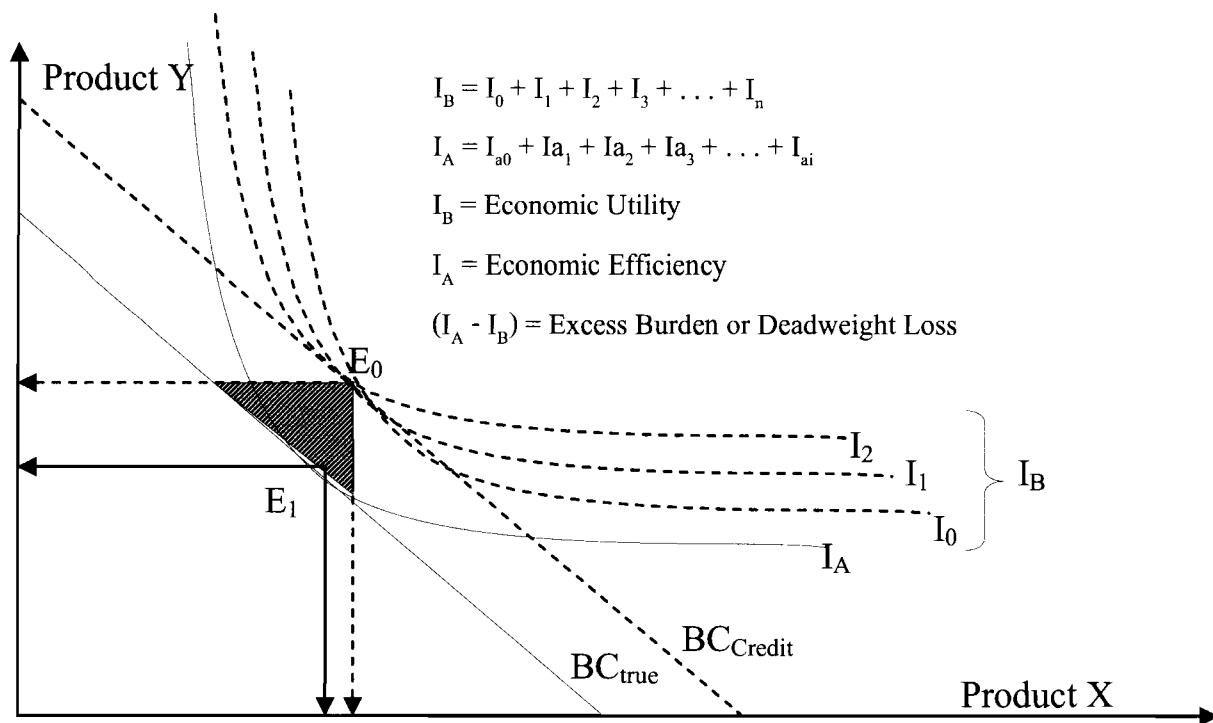


Figure 2. Sufficiency Economy discounts Budget Constraint line extended by consumer credit.

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 (E_1), 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 far 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 (I_0 , I_1 , or I_2) 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.

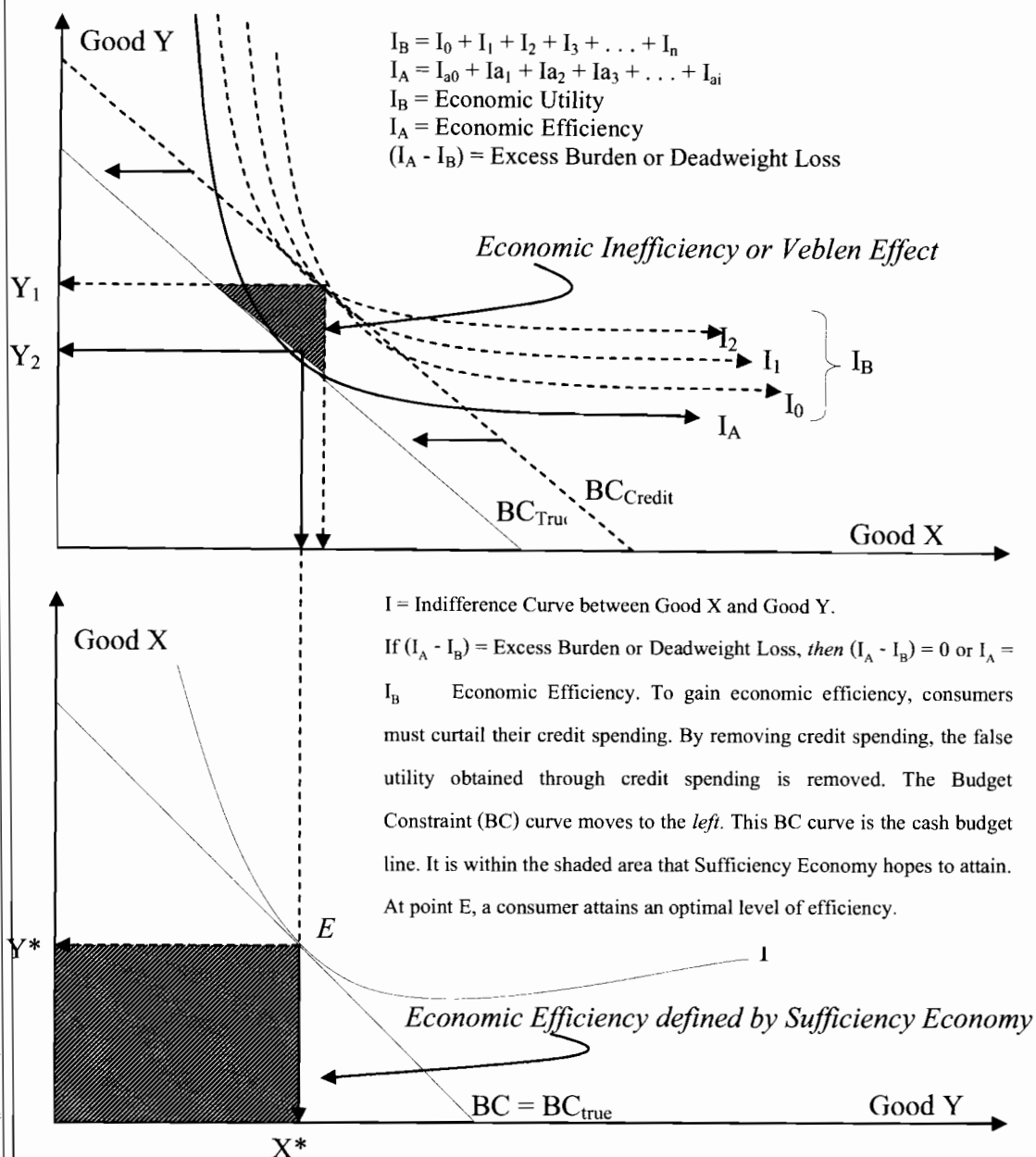


Figure 3. Shifting the Budget Constraint line to the left to reflect true Budget Constraint.

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

¹Sustainable 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.”

²Welfare 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.

See Paul A. Samuelson, Enlarged ed. (1983), *Foundations of Economic Analysis*, ch. 8, (1974); and Paul A. Samuelson, “Abram Bergson 1914-2003: A Biographical Memoir,” (2004). Kotaro Suzumura, 1987, “social welfare function,” *The New Palgrave: A Dictionary of Economics*, v. 4, 418-20

³A Giffen good is one for which observed demand rises as price rises, but the effect arises without any interaction between price and preference - it results from the interplay of the *income effect* and the *substitution effect* of a change in price. See Chao, A., & Schor, J. B. (1998), *Empirical tests of status consumption: Evidence from women's cosmetics*. Journal of Economic Psychology, 19, 107-131; Lea, S. E. G., Tarpy, R. M., & Webley, P. (1987), *The individual in the economy*. Cambridge: Cambridge University Press; and Leibenstein, H. (1950). Bandwagon, Snob, and Veblen, *Effects in the Theory of Consumers' Demand*. Quarterly Journal of Economics, 64, 183-207.

⁴Veblen, Thorstein. (1899). *Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*. New York: Macmillan. p. 400.

⁵This 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 is 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 parvenu ostentation of the nouveau riche are equally detestable to asceticism.” See *The Protestant Ethic and the Spirit of Capitalism*, Max Weber, Trans. Talcott Parsons, Anthony Giddens (Unwin Hyman, 1930): chap. 5.

⁶See Somdej Pramaha Samanajao Kromprayavachirayanavaroros, *Navakovadha* (B.E. 2541). The people’s edition. Reprint. [Chabab Prachachon].

⁷See Rowstow, W W. (1960). *Stages of Economic Growth: A Non-Communist Manifesto*. Massachusetts: Cambridge.

⁸The multiplier effect is illustrated by the formulation below:

$$Y_1 = c_0 + c_1 (Y - T) + I + G$$

$$Y_1 = \frac{1}{1 - c_1} (c_0 + I + G - c_1 T)$$

$$G = G + \alpha$$

$$T = T + \alpha$$

$$Y_2 = \frac{1}{1 - c_1} (c_0 + I + (G + \alpha) - c_1 (T + \alpha))$$

$$\Delta Y = Y_2 - Y_1 = \frac{\alpha}{1 - c_1} (1 - c_1) = \alpha$$

$$\Delta T - G = \alpha - \alpha = 0$$

⁹Neoclassical economic 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).

¹⁰See Bowley, A. L. (1924), *The Mathematical Groundwork of Economics*. Oxford: Clarendon Press.

¹¹Hicks, J.R. & Allen, R.G.D. (1934). A reconsideration of the theory of value. *Economica*, 1(1), 52-76.

¹²For relevant works of Abba Lerner, see “The Diagrammatical Representation of Cost Conditions in International Trade”, 1932, *Economica*; “The Diagrammatical Representation of Demand Conditions in International Trade”, 1934, *Economica*; “The Concept of Monopoly and the Measurement of Monopoly Power”, 1934, *RES*; “Economic Theory and Socialist Economy”, 1934, *RES*; *The Economics of Control: Principles of welfare economics*, 1944; “Interest Theory: Supply and demand for loans or supply and demand for cash?”, 1944, *RES*; and “Strengthening the Economic Foundations of Democracy”, with Oskar Lange, 1944, *American Way of Business*.

¹³Nicholas Kaldor, “Welfare Propositions in Economics”, 1939, *EJ*; “Speculation and Economic Stability”, 1939, *RES*; and “Capital Intensity and the Trade Cycle”, 1939, *Economica*.

¹⁴See “A Note on Welfare Propositions in Economics”, 1941, *RES*; “Capital Accumulation, Employment and Price Rigidity”, 1941, *RES*; and “A Reconsideration of the Theory of Tariffs”, 1942, *RES*.

¹⁵John R. Hicks.(1939). *Value and Capital: An inquiry into some fundamental principles of economic theory*(2nd ed). Oxford: Clarendon Press.

¹⁶Maurice Allais, *La Recherche d'une Discipline Economique*, 1943.

¹⁷Oskar R.Lange, “Theoretical Derivation of the Elasticities of Demand and Supply: the direct method”, 1942, *Econometrica*; “The Foundations of Welfare Economics”, 1942, *Econometrica*; “The Stability of Economic Equilibrium”, 1942, *Econometrica*; and “Say's Law: A restatement and criticism”, 1942, in Lange et al., editors, *Studies in Mathematical Economics*.

¹⁸See Samuelson, P. A.(1947, Enlarged ed. 1983). *Foundations of Economic Analysis*. Harvard University Press.

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