

Personal Financial Planning by using the Philosophy of Sufficiency Economy

Sukumal Wangvanitchaphan

Rajamangala University of Technology Phra Nakhon

Abstract

This analytical research intended to apply the sufficiency economy philosophy to personal financial planning. This philosophy was used to apply to many areas such as agricultural and macroeconomic studies. However, at the best to our knowledge, there was no application of this philosophy to personal financial planning. This research was the first to apply in this aspect. The sufficiency economy philosophy emphasized on the middle path approach as mode of conduct to achieve the moderation and sustainable development in life. By applying this philosophy, the success of utilization in personal financial planning could be improved remarkably. In general, the conventional practice of personal financial planning began with the most important step, setting personals' own retirement- and survivor-spending targets. Mostly, these demand-driven targets were too high to achieve and bring on the personal's stress and high probability of failure. However, this philosophy was able to correct these problems by aiming to achieve the balanced and sustainable development. By applying this philosophy, the personal financial planning was designed to base on the microeconomic theory with such consumption smoothing and life cycle theory. In order to make this abstract concept to be empirical and accessible, this personal financial planning by using the sufficiency economy philosophy had been written in computer program to guide the public users for their optimal numerical time paths of consumption and savings over the lifetime. Moreover, this research also designed an evaluation form for public users to scale their own current livelihood or behavior comparable to sufficiency economy philosophy. In addition, this research launched the survey to test the satisfaction of our samples to use the computer program and sufficiency economy self-evaluation form as a guide for optimal saving and spending path in financial

planning with sufficiency economy philosophy. The result significantly confirmed this approach.

Keywords : sufficiency economy philosophy, the philosophy of sufficiency economy

INTRODUCTION

The sufficiency economy philosophy was bestowed to Thai people first time in His Majesty the King Bhumibol Aduyadej’s address delivered on Kasetsart University Commencement Ceremony on 19 July 1974; “...The development of the country must be fostered in stages. It must start with the construction of infrastructure, that is, the provision of food and basic necessities for the people by methods, which are economic, cautious and conforming with principles. Once the foundation is firmly established, progress can be continually, carefully and economically promoted. This approach will prevent incurring mistakes and failures, and lead to the certain and complete achievement of the objectives...”

This philosophy was mentioned again after the Thailand’s remarkable growth journey came to an end in 1997 with the eruption of the Asian financial crisis. His Majesty King Bhumibol Adulyadej gave his speech on 4 December 1997 concerning the crisis and gave an alternative methodology called “ the sufficiency economy” dealing with the repeated cycle of economic boom and burst. His Majesty the King bestowed to Thai people on His Birthday Anniversary on 4 December 1998;

“...If we are happy with however little we have, we will be less greedy and will exploit others less. If all countries observe this idea - not only in an economic sense, but to try to keep the middle ground - being sufficient and not extreme, not greedy, then we can live happily...”

His Majesty’s sufficiency economy is based upon a Middle Path between society at the local level and the market in the global context. By highlighting a balanced approach, the philosophy allows the nation to modernize without resisting globalization, but provides a means to counteract negative outcomes from rapid economic and cultural transitions. The Sufficiency Economy became critical during the economic crisis in 1997, in which Thailand needed to maintain stability to persist on self-reliance and develop important policies to recover. By creating a self-supporting economy, Thai citizens will have what they need to survive but not excess, which would turn into waste. NESDB(2007) gave very excellent informative details in the implication and application of sufficiency economy philosophy.

This philosophy has been applied to all levels, branches, and sectors of the economy such as agricultural or rural sectors, the financial, the real estate, and the international trade and investment sectors. However, at the best to our knowledge, there was no application of this philosophy to personal financial planning. With this great philosophy, the application to personal financial planning could help enhance the personal and household, the most important and smallest unit in economy, to be resilient to any financial shock. This research is to apply this philosophy to personal financial planning. In general, the conventional practice of personal financial planning begins with the most important step, setting personals' own retirement- and survivor-spending targets. Mostly, these targets are too high to achieve and bring on the personal's stress and failures. However, the sufficiency economy philosophy is able to remedy these problems. The philosophy aims to achieve the balanced and sustainable development.

Theoretical Part

“Sufficiency Economy” is the philosophy that emphasizes the middle path as a main principle for appropriate conduct covering numerous aspects of life that will lead to a sustainable way of living, be able to meet the challenges arising from globalization and other changes. This philosophy can be applied to all levels, from person to family, community and country.

The philosophy of Sufficiency Economy includes three elements: moderation, reasonableness and self-immunity, and requires two conditions for the philosophy to work: knowledge and morality, as illustrated in the followings;

1) Moderation: Sufficiency at a level of not doing something too little or too much at the expense of oneself or others, for example, producing and consuming at a moderate level.

2) Reasonableness: The decision concerning the level of sufficiency must be made rationally with consideration of the factors involved and careful anticipation of the outcomes that may be expected from such action.

3) Self-Immunity: The preparation to cope with the likely impact and changes in various aspects by considering the probability of future situations.

The decisions and activities must be carried out at a sufficient level depending on two conditions:

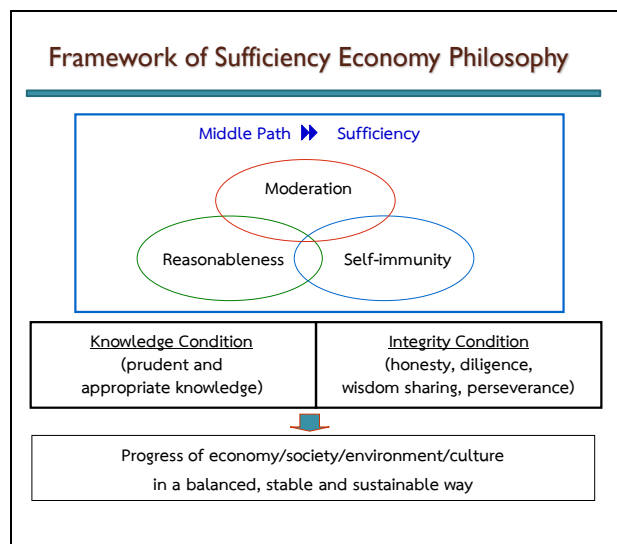
1) Knowledge condition: comprising all-round knowledge in the relevant fields and prudence in bringing this knowledge into consideration to understand the

relationship among the field so as to use them to aid in the planning and ensure carefulness in the operation.

II) Morality Condition : comprising the awareness of integrity, trustworthiness, honesty, patience, perseverance, and intelligence in leading one’s life.

With this philosophy, people would live with their life in harmony and with security in a sustainable society and environment; and they would be able to deal with critical challenges, arising from extensive and rapid socioeconomic, environmental, and cultural changes in the world as illustrated in figure 1.

Figure 1: The Framework of Sufficiency Economy Philosophy

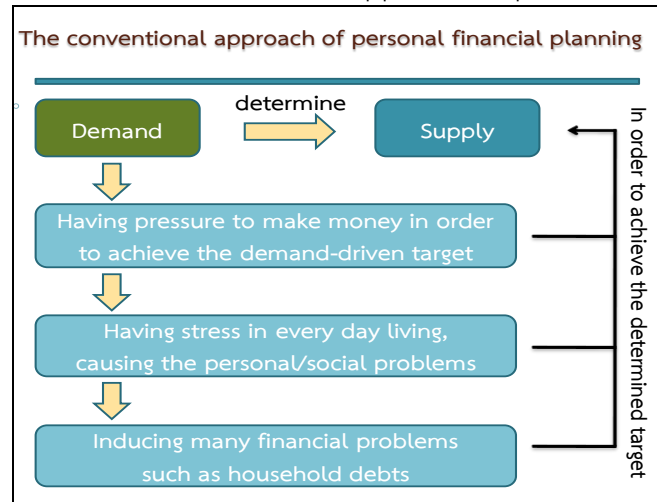


Source: NESDB 2007

1. Personal Financial Planning

The conventional personal financial planning would begin with setting up the personal retirement and survivor-spending target. This disconnects to the economic theory such as consumption smoothing in which a person or households seek to maintain their living standard as they age and face the life’s various contingencies. Moreover, this conventional planning usually constructs the demand-driven targets which are too high to achieve and bring on the personal’s stress and high probability of failure. This can be illustrated in figure 2 below.

Figure 2: The conventional demand-driven approach of personal financial planning



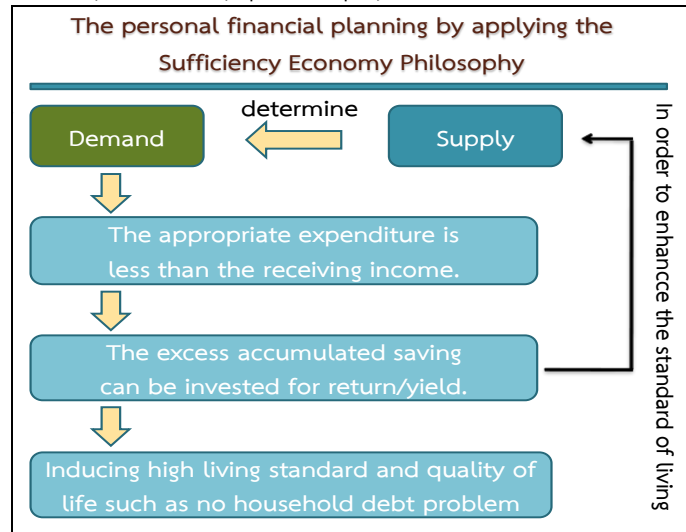
The economic approach to personal financial planning, supported by Laurence J. Kotlikoff (2008), is based on the life-cycle model of saving developed by Ando and Modigliani (1963). Its goal is to smooth personal/households' living standards over their life cycles rather than achieve the demand-driven targets. In this economic approach, the saving and spending targets are endogenous. By using this economic approach, the financial planner will receive the consumption and savings paths which are based on the smoothing path over the whole life-cycle period. Hanna, Sherman, Jessie X. Fan and Y. Regina Chang (1995) also used the life cycle savings model to apply to personal financial planning with a computer program

2. Personal Financial Planning by applying the sufficiency economy philosophy

As a matter of fact, the concept of optimal saving and consumption path generated from the life-cycle model of saving is consistent to the middle-path concept of sufficiency economy philosophy. However, the sufficiency economy philosophy gives the guidance for operation and ensures the balanced and sustainable living standard.

Thus this economic approach to personal financial planning with the sufficiency economy philosophy, as illustrated in figure 3, will give the supply-driven target in which person or household can operate and receive the good results.

Figure 3: The economic supply-driven approach of personal financial planning by applying the sufficiency economy philosophy.



METHOD

The method to analyze the personal financial planning by applying the sufficiency economy philosophy is the quantitative approach. In order to make this abstract philosophy to be empirical and accessible, the personal financial planning by using the sufficiency economy philosophy has been written in computer program to guide the public users for their optimal numerical time paths of consumption and savings over the lifetime. The main concept of this computer program composes of 2 main parts. The first part is the optimization process for the personal financial planning by using the microeconomic theory with such consumption smoothing and life cycle theory. This research followed Carroll(2011) to solve optimal consumption and saving paths by using the dynamic programming approach. The last part is the concept of sufficiency economy philosophy that implements more constraints of personal or household's financial status on the optimization problem of saving and spending over the life cycle. These constraints will ensure that the person or household will receive the optimal smoothing consumption and not end up in debt. The constraints by using sufficiency economy philosophy on optimal path of saving and spending over the life cycle could be dependent on each person or household's financial condition. However, for general case in this research the constraint that the retirement savings are not less than the expected post-retirement spending over the lifetime period is applied. In this research, our constraint is that the person or household's savings in each period over the lifetime must be more than the maximum value between condition 1 and condition 2, whereas the condition 1 is the amount of money which is equal to "the retirement-year annual income * the time (years) remaining to retirement * the ratio of desirable annual spending level to pre-retirement annual income" and the condition 2 is the amount of money which is equal to "the current

annual income * the average return rate from now until retirement * the time(years) remaining to retirement * the ratio of desirable annual spending level to pre-retirement annual income”.

This could assure the person or household does not leave debts to his or her descendants. In addition, Muthitacharoen, Nuntramas, and Chotewattanakul (2014) establish that the households in all occupations exhibit a significant increase in their predicted probability of having difficulty paying their debt if his or her debt-service-ratio level is above 40%. This finding could be attributed to the constraint of optimal path in order to achieve the sufficiency economy philosophy in personal or household financial planning. There is much room for future research on applying new ideal constraint for sufficiency economy philosophy. Moreover, this research also designs an evaluation form for public users to scale their own current livelihood or behavior comparable to sufficiency economy philosophy.

The efficiency and capability of this program are tested by the survey sampling of public users. The 600 survey samples are collected by Accidental Sampling method through web-based questionnaires. These samples are also analyzed for statistical purpose. The questionnaires and analysis method are separated into 3 sections as the followings;

1. Section I: Questionnaire for Personal Financial Planning

The purpose of this questionnaire is to collect the important personal financial data to be used in the computer program for personal financial planning by applying the sufficiency economy philosophy. After having complete data, the computer program is able to generate the optimal and practical time paths of consumption and savings over the lifetime in according with the constraint that represents the philosophy of sufficiency economy.

2. Section II: Questionnaire for evaluation of personal's current livelihood and behavior comparable to the sufficiency economy philosophy.

The purpose of this questionnaire is to evaluate the personal's current livelihood and behavior comparable to the sufficiency economy philosophy based on three main principles: moderation, reasonableness and the self-immunity against risks from internal or external change along with the conditions of knowledge and morality. The result of this evaluation is classified into 5-level rating scale (highest, high, medium, low, lowest).

3. Section III: Open-ended Questionnaire

The purpose of this questionnaire is to use the open-ended questions to receive the opinion and suggestion from the samples about the computer program and scaling evaluation in previous two sections.

Result

The result of computer personal financial planning program illustrates the optimal numerical time paths of consumption and savings over the lifetime in according with the sufficiency economy philosophy. These paths will guide the personal to behave in the sufficiency economy approach in order to achieve the optimal living standard as well as sustainable future.

Example of Computer Program Result

Figure 4 : Summary of revenue, optimal saving and spending over the life cycle

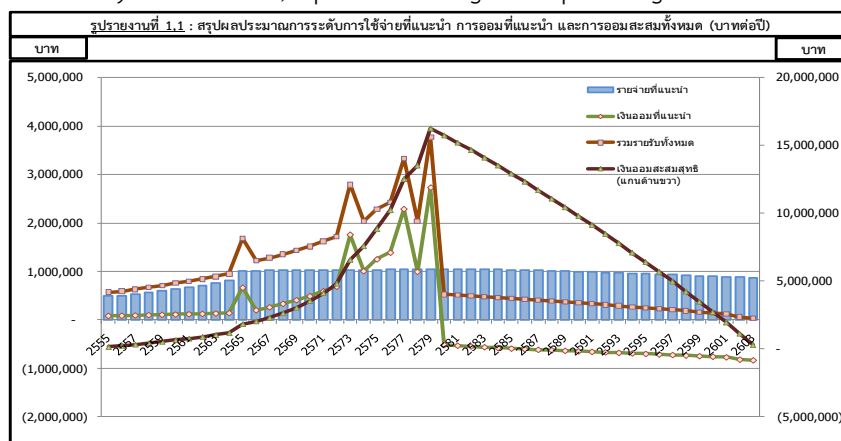


Figure 5: Sensitivity analysis of revenue, optimal saving and spending over the life cycle in case of the normal distribution of interest rate.

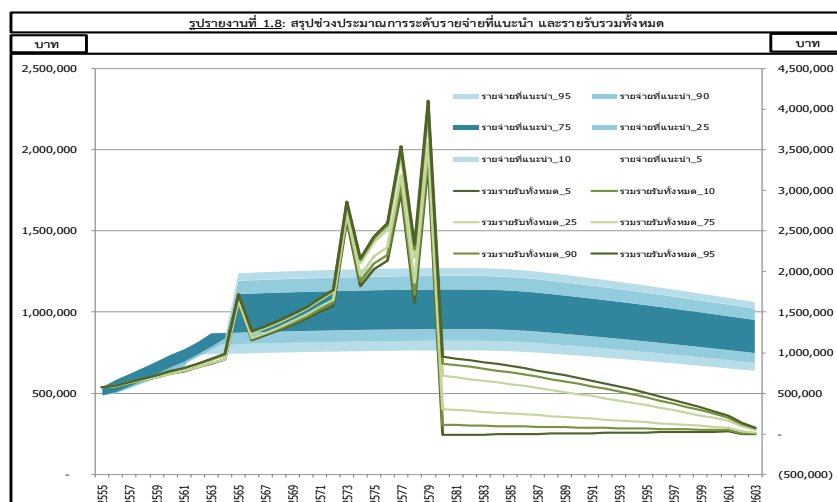
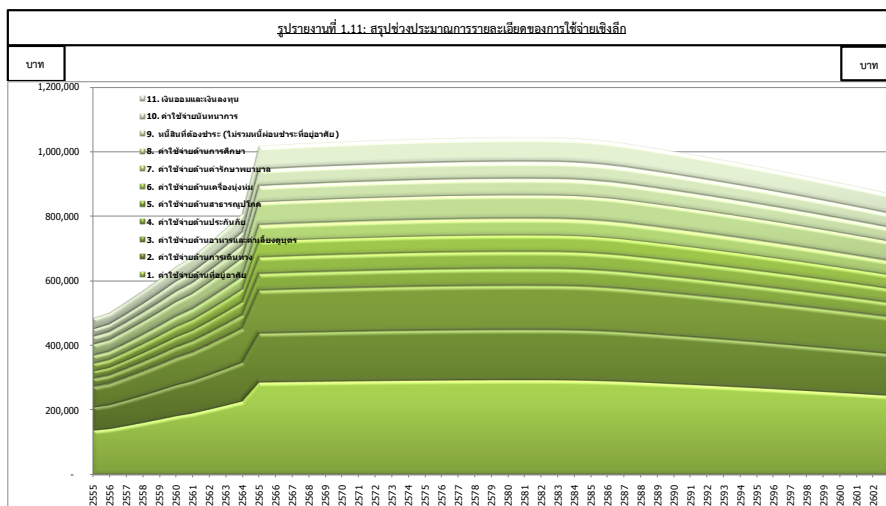


Figure 6: The decomposition of optimal spending over the life cycle into sub-item of personal or household's spending such as rent, food, cloth and fuel.

รายการรายจ่ายของครอบครัว (หน่วย : บาท)	ทั้งหมด		สัดส่วนของรายจ่ายต่อประเภท			
	ยอดเงิน	สัดส่วน (%)	สัดส่วนที่วางแผนไว้ (%)	ค่าประมาณการของสัดส่วน (%)	ยอดเงินที่วางแผนไว้ (ค่าประมาณ)	ความแตกต่าง (ยอดเงินจริง - ยอดเงินที่วางแผนไว้)
รายรับรวมของครอบครัว	81,000	100			81,000	0
รวมรายจ่ายของครอบครัว						
1. ค่าใช้จ่ายด้านที่อยู่อาศัย	21,000	26	25-30%	28	23,680	(1,680)
2. ค่าใช้จ่ายด้านการเดินทาง	11,000	14	15%	15	12,150	(1,150)
3. ค่าใช้จ่ายด้านอาหารและเครื่องดื่ม	18,000	22	10-15%	13	10,330	7,670
4. ค่าใช้จ่ายด้านเครื่องนุ่งห่ม	5,500	7	5-10%	8	4,050	1,450
5. ค่าใช้จ่ายด้านสาธารณูปโภค	5,500	7	5-10%	5	4,050	1,450
6. ค่าใช้จ่ายด้านเครื่องสำอาง	1,500	2	5%	4	4,050	(2,550)
7. ค่าใช้จ่ายด้านการศึกษา	1,000	1	5-10%	1	4,050	(3,050)
8. ค่าใช้จ่ายด้านสุขภาพ	500	1	5-10%	7	5,470	(5,170)
9. หนี้สินที่มีอยู่จริง (ไม่รวมหนี้ที่มีอยู่จริง)	2,000	2	5-10%	2	4,050	(2,050)
10. ค่าใช้จ่ายพิเศษต่างๆ	3,000	4	5%	5	4,050	(1,050)
11. เงินออมและเงินลงทุน	9,500	12	5-10%	1	5,470	3,930

Figure 7: The fanchart of optimal sub-item spending over the life cycle such as rent, food, cloth and fuel.



According to accidental sampling survey, the samples are very satisfied with this computer program for personal financial planning by applying the sufficiency economy philosophy and the scaling evaluation form. This computer program and scaling evaluation form are very useful to guide their livelihood and behavior to live in according to the sufficiency economy philosophy.

Moreover, the results from survey inform that the majority of samples' rating scale of current livelihood and behavior in accordance with the sufficiency economy philosophy is in the high level. The samples' rating scales for the components of this philosophy are the followings;

- The rating scale of morality and knowledge conditions are in the highest level.

- The rating scale of moderation and reasonableness principles are in the high level.
- The rating scale of self-immunity principle against risks from internal or external change is in the medium level.

CONCLUSION

The sufficiency economy philosophy was bestowed to Thai people first time in His Majesty the King Bhumibol Aduyadej's address delivered on Kasetsart University Commencement Ceremony on 19 July 1974. It was mentioned again in His Majesty's speech on 4 December 1997 after the Thailand's remarkable growth journey came to an end in 1997 with the eruption of the Asian financial crisis.

This sufficiency economy philosophy emphasizes on the middle path approach as mode of conduct to achieve the moderation and sustainable development in life.

The philosophy of Sufficiency Economy includes three elements: moderation, reasonableness and self-immunity, and requires two conditions for the philosophy to work: knowledge and morality. With this philosophy, people would live with their life in harmony and with security in a sustainable society and environment; and they would be able to deal with critical challenges, arising from extensive and rapid socioeconomic, environmental, and cultural changes in the world. This philosophy has been applied to all levels, branches, and sectors of the economy such as agricultural or rural sectors, the financial, the real estate, and the international trade and investment sectors. However, at the best to our knowledge, there was no application of this philosophy to personal financial planning.

This research is to apply this great philosophy to personal financial planning to could help enhance the personal and household, the most important and smallest unit in economy, to be resilient to any financial shock. However, the conventional practice of personal financial planning begins generally with the most important step, setting personals' own retirement- and survivor-spending targets. Mostly, these targets are demand-driven, too high to achieve and bring on the personal's stress and high probability of failures. However, by applying the economic approach to personal financial planning with the sufficiency economy philosophy, these problems could be solved. This approach will give the supply-driven target in which person or household is able to achieve the balanced and sustainable living standard.

In order to make this abstract philosophy to be empirical and accessible, the personal financial planning by using the sufficiency economy philosophy has been written in

computer program to guide the public users for their optimal numerical time paths of consumption and savings over the lifetime. The main concept of this computer program composes of 2 main parts, the optimization process for the personal financial planning by using the microeconomic theory and the sufficiency economy philosophy that implements more constraints of personal or household's financial status on the optimization problem of saving and spending over the life cycle. These constraints will ensure that the person or household will receive the optimal smoothing consumption and not end up in debt. This research applies the constraint in which the retirement savings are not less than the expected post-retirement spending over the lifetime period. This could assure the person or household does not leave debts to his or her descendants. The efficiency and capability of this personal financial planning by using the sufficiency economy philosophy are tested by programming in Excel VBA application with survey sampling of public users. Moreover, this research also designed an evaluation form for public users to scale their own current livelihood or behavior comparable to sufficiency economy philosophy. The 600 survey samples are collected by Accidental Sampling method through web-based questionnaires.

The result of computer personal financial planning program illustrates the optimal numerical time paths of consumption and savings over the lifetime in according with the sufficiency economy philosophy. These paths will guide the personal to behave in the sufficiency economy approach in order to achieve the optimal living standard as well as sustainable future.

This research also launched the survey to test the satisfaction of the computer program and sufficiency economy self-evaluation form. According to accidental sampling survey, the samples are very satisfied with this computer program for personal financial planning by applying the sufficiency economy philosophy and the scaling evaluation form. The computer program and scaling evaluation form are very useful to guide their livelihood and behavior to live in according to the sufficiency economy philosophy. Moreover, the results from survey inform that the majority of samples' rating scale of current livelihood and behavior in accordance with the sufficiency economy philosophy is in the high level. Last but not least, there is much room for potential future research on applying new ideal constraint for sufficiency economy philosophy.

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