

Personal Financial Planning by using the Philosophy of Sufficiency Economy

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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 persons' 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

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problems. The philosophy aims to achieve the balanced and sustainable development.

2. 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:

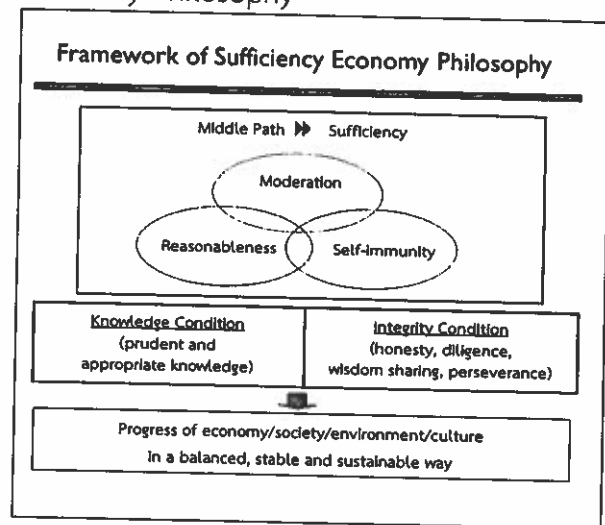
1) Knowledge condition: comprising all-round knowledge in the relevant fields and

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

2.1 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

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

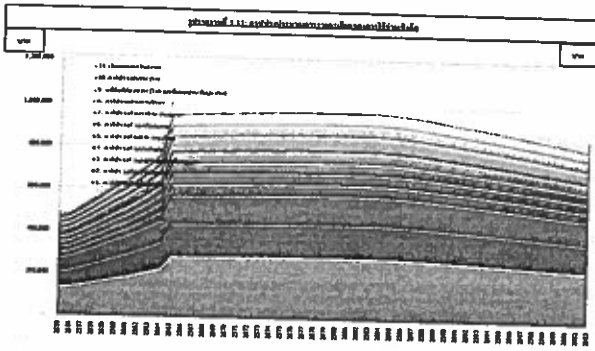
(years) remaining to retirement * the ratio of desirable annual spending level to pre-retirement annual income".

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;

3.1 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



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. These 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.

5. 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

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