

Financial Freedom: Pathways and Challenges to Economic Empowerment

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Abstract

Financial freedom has become a crucial element of individual well-being and sustainable economic progress in today's world. It goes beyond the conventional focus on accumulating wealth, instead highlighting the importance of financial independence, adaptability, and the freedom to make choices without being limited by economic barriers. This concept paper delves into the various aspects of financial freedom by exploring its sources, forms, and broader socio-economic relevance. It draws on theoretical frameworks such as the Life-Cycle Hypothesis and Financial Capability Theory and integrates empirical insights on how financial literacy, digital financial tools, and socio-economic conditions influence financial freedom. The paper pays particular attention to the situation in developing countries like Nepal, where obstacles such as irregular income, insufficient financial education, and gender inequality continue to hinder progress. Relying on a qualitative approach and secondary data, the paper proposes practical strategies to promote inclusive financial empowerment. These include improving financial education, encouraging income diversification, broadening access to financial services, and filling existing policy gaps. Ultimately, financial freedom is not just a personal milestone but a shared objective that can strengthen economic resilience, enhance mental health, and support sustainable development.

Keywords: Financial Freedom, Economic Empowerment, Financial Literacy, Income Diversification, Digital Inclusion, Policy Reform.

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Background

Finance is a field that focuses on the planning, management, and effective use of monetary resources within individual, corporate, and governmental settings. It involves essential activities such as budgeting, saving, investing, borrowing, and financial forecasting to achieve efficient and beneficial financial outcomes (Brigham & Houston, 2019). Through informed decision-making, finance contributes significantly to the equitable allocation of resources and promotes economic stability and development (Brealey, Myers, & Allen, 2020). The discipline is typically categorized into personal finance, corporate finance, and public (Fabozzi & Peterson Drake, 2009). In an increasingly interconnected and technologically driven world, financial literacy and strategic financial planning have become more crucial than ever (Lusardi & Mitchell, 2014). In this context, financial freedom has emerged as a key pillar of personal development and economic empowerment. It refers to the state in which individuals can meet their needs, pursue life goals, and make autonomous choices without being constrained by financial stress. More than just wealth accumulation, financial freedom now includes debt management, time autonomy, and investment capacity (Lusardi & Mitchell, 2014).

Global transformations—driven by digital innovation, escalating living costs, and widening income inequality—have reshaped what it means to achieve financial independence (OECD, 2020). Major economic disruptions, such as the 2008 global financial crisis and the COVID-19 pandemic, exposed the vulnerability of financial systems

and underscored the importance of income diversification and digital accessibility (Demirguc-Kunt, Klapper, Singer, Ansar, & Hess, 2022).

In developing countries like Nepal, barriers such as a largely informal job market, limited financial literacy, and deep-rooted socio-cultural norms continue to obstruct individuals' paths to financial autonomy (Pant, 2021). However, the growing adoption of mobile banking, financial technology (fintech), and increasing public awareness about financial tools present promising opportunities for empowerment (World Bank, 2022). Therefore, advancing financial freedom is not only critical for individual well-being but also for ensuring inclusive and resilient economic growth.

Concept of Financial Freedom

The concept of financial freedom is gaining prominence in the realm of both personal and global finance. Rather than simply accumulating wealth, it emphasizes the ability to manage finances wisely, make independent choices, and live without ongoing financial stress. Financial freedom enables individuals to achieve personal aspirations—whether it's retiring early, changing careers, starting a business, traveling, or investing in personal growth—without being hindered by monetary constraints (Lusardi & Mitchell, 2014).

Amid rising living expenses, unstable job markets, and recurring economic shocks, the desire for financial freedom has become increasingly relevant. This aspiration is especially prominent among youth and middle-income populations, who are acutely aware of the need for financial independence due to uncertain job opportunities and limited access to social protection systems (OECD, 2020). The COVID-19 crisis further underscored these challenges, revealing the risks of depending solely on one source of income. The widespread loss of jobs and income reductions during the pandemic highlighted the urgent importance of having emergency savings, generating passive income, and engaging in long-term financial planning (Demirguc-Kunt, Klapper, Singer, Ansar, & Hess, 2022).

Crucially, financial freedom does not depend solely on high income or accumulated wealth. Instead, it stems from intentional and informed financial practices—such as financial literacy, regular saving, diversified investment strategies, and careful spending habits (Hilgert & Hogarth, 2003). Individuals with modest incomes can achieve financial autonomy by budgeting effectively, making sound investment choices, avoiding excessive debt, and preparing for future financial uncertainties.

In this regard, financial literacy serves as a cornerstone. A solid understanding of core financial concepts—like compound interest, inflation, credit management, and investment risk—is essential for making sound financial decisions. Without this foundational knowledge, even those with high earnings may mismanage their finances, potentially leading to long-term instability and insecurity (OECD, 2020), (Demirguc-Kunt, Klapper, Singer, Ansar, & Hess, 2022).

This paper delves deeply into the concept of financial freedom to offer a structured framework that can inform individuals, educators, and policymakers. By analyzing the sources, categories, and barriers to financial independence—particularly within the context of developing nations like Nepal—it highlights how a combination of systemic reform and personal responsibility can lead to enhanced financial well-being and decreased economic vulnerability over time (Garman & Forgue, 2018).

Sources of Finance for Financial Freedom

It takes a variety of carefully managed funding sources to reach financial independence. These resources offer both active and passive revenue streams, which support stability and long-term economic independence.

Employment Income

For most individuals, income earned through employment remains the principal and most dependable source of personal finance. This typically includes regular salaries, hourly wages, performance-based bonuses, and other job-related perks or benefits such as health insurance or retirement contributions. Such income plays a foundational role in managing daily financial responsibilities—ranging from paying for essentials like housing,

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food, and transportation to facilitating long-term goals such as saving for emergencies, investing, or retirement planning. Due to its consistent nature, employment income often serves as the baseline upon which personal budgets are created and financial security is built(Hilgert & Hogarth, 2003).

Business and Self-Employment

Engaging in entrepreneurship or freelance work empowers individuals to take direct control over their sources of income. Unlike traditional employment, these avenues offer significant flexibility—allowing people to choose their work schedules, clients, and projects. Additionally, self-employment provides opportunities for income scalability, meaning earnings can increase based on effort, innovation, and market demand. Although it comes with higher risks—such as income instability, lack of employment benefits, and the need to manage one's own taxes and business operations—self-employment can also result in greater financial rewards and independence over time. For many, the trade-off between risk and autonomy is worthwhile, especially when paired with strong business acumen and a clear value proposition(U.S. Bureau of Labor Statistics, 2021)(OECD, 2020).

Investments

Investing in assets such as stocks, bonds, mutual funds, and real estate is a powerful way to generate passive income—money earned with little to no ongoing effort. This form of income is a cornerstone of financial independence, as it allows individuals to earn beyond their active labor. Unlike employment income, which requires continuous work, passive income from well-chosen investments can continue to grow and provide returns over time. Strategic investments not only help diversify income sources but also reduce financial reliance on a single job or source of income. Over the long term, these investments can lead to substantial wealth accumulation, especially when compounded over years. By carefully managing risks and staying informed, individuals can use investments to secure their financial future and enjoy greater autonomy in their financial decisions(Investopedia),(U.S. Securities and Exchange Commission).

Savings and Interest

Savings accounts, certificates of deposit (CDs), and fixed deposits are low-risk financial instruments that play a crucial role in ensuring financial security. These options, though generally offering modest returns compared to high-risk investments, provide stability and predictable growth through interest earnings. They are especially valuable during times of economic uncertainty, acting as financial cushions that individuals can rely on for emergency needs or unforeseen expenses. Maintaining such savings not only fosters disciplined financial habits but also enhances overall financial resilience by ensuring liquidity and reducing the need for high-interest borrowing during crises. For those beginning their financial journey or seeking a conservative approach, these tools serve as foundational components of a well-balanced financial strategy(Investopedia)(U.S. Securities and Exchange Commission).

Pension Funds and Retirement Accounts

Retirement-oriented financial tools—such as provident funds, individual retirement accounts (IRAs), and pension schemes—are essential for ensuring financial stability and income continuity in the post-retirement phase of life. These long-term savings mechanisms are specifically designed to help individuals accumulate wealth gradually throughout their working years, providing a reliable source of income when they are no longer actively employed. By consistently contributing to these plans, individuals can benefit from compound interest, tax advantages, and in some cases, employer matching contributions. These instruments not only reduce the financial burden during old age but also support a sense of independence and dignity by lessening reliance on family or public support systems. Incorporating retirement planning early in life is a key aspect of achieving financial freedom and preparing for unforeseen health or living expenses in later years(Investopedia)(OECD, 2021).

Inheritance and Trust Funds

While not universally available, inheritance and trust funds can play a powerful role in shaping an individual's financial path. These forms of wealth—often passed down through generations—can provide a substantial financial head start, enabling beneficiaries to bypass certain economic hurdles that others may face. When managed responsibly, such assets can be leveraged for long-term investments, education, entrepreneurship, or home ownership, all of which can significantly accelerate the journey toward financial independence. However, the impact of inheritance depends greatly on financial literacy and sound decision-making, as mismanagement can quickly erode even substantial inheritances. Despite being a privilege not afforded to all, generational wealth through inheritance or trusts remains a key driver of financial security and upward mobility for those who receive it (Investopedia), (Kochhar, Moslimani, & Ardit, 2023).

Objectives of the Paper

1. To define and conceptualize financial freedom within the framework of personal finance and economic empowerment.
2. To identify and analyze the key sources of finance that contribute to achieving financial independence.
3. To examine the major challenges and socio-economic barriers individuals face in attaining financial freedom.
4. To propose practical strategies and policy recommendations for enhancing financial literacy and promoting inclusive financial empowerment.

Significance of the Study

Financial freedom is not just a personal goal but a public good that can enhance economic productivity and social well-being. Its significance includes:

- Financial freedom encourages individuals to make life decisions independently, such as choosing a career path, pursuing education, or making lifestyle changes, without being constrained by financial limitations.
- When individuals attain financial freedom, they are more likely to invest in productive ventures, start businesses, and create employment opportunities, thereby contributing to broader economic development.
- Through disciplined saving, budgeting, and long-term financial planning, people can break the cycle of poverty and build sustainable economic security for themselves and their families.
- Financial stress is one of the leading causes of anxiety and depression, and achieving financial freedom helps reduce this burden by fostering a sense of stability and control over one's future.
- Financial freedom plays a crucial role in guiding governments and NGOs to design targeted financial literacy, inclusion, and empowerment programs that address systemic economic challenges and promote equitable growth

Theoretical Review

Life-Cycle Hypothesis (LCH)

Proposed by economists Franco Modigliani and Richard Brumberg in 1954, the Life-Cycle Hypothesis posits that individuals aim to optimize their consumption and savings over the course of their lives. Rather than spending based solely on current income, people strategically save during their working years and dissave (or draw down their savings) in retirement to maintain a stable standard of living. This theory underscores the importance of long-term planning and financial foresight, which are critical components of financial freedom, especially in later stages of life (Modigliani & Brumberg, 1954).

Permanent Income Hypothesis (PIH)

Formulated by Milton Friedman in 1957, the Permanent Income Hypothesis argues that people base their consumption decisions not on their immediate income, but on an estimation of their average lifetime income—what Friedman termed "permanent income." This concept explains why individuals may continue spending consistently

during temporary income fluctuations, and highlights the value of stable long-term financial expectations. It aligns well with financial freedom strategies, as it encourages individuals to think beyond short-term gains and manage finances based on anticipated long-term income(Friedman, 1971).

Financial Capability Theory

Developed by Michael Sherraden in 2010, the Financial Capability Theory highlights that achieving financial well-being depends on both individual financial knowledge and the systemic availability of financial tools and services. According to Sherraden, true financial capability combines ability (knowledge and skills) with opportunity (access to financial products and institutions). This theory is particularly relevant for developing contexts where access to services may be limited. Building financial capability enables individuals to make informed financial choices, which is a foundational step toward achieving sustainable financial freedom(Walstad, Rebeck, & Rebeck, 2010).

Empirical Review

Lusardi and Mitchell (2014) found that individuals with higher financial literacy were more likely to engage in prudent financial behaviors such as consistent saving and proactive retirement planning. These behaviors were identified as fundamental pillars of long-term financial independence. Their research highlighted that understanding key financial concepts—such as interest compounding, inflation, and risk diversification—greatly enhanced individuals' ability to make informed economic decisions over their lifetimes(Lusardi & Mitchell, 2014).

Atkinson and Messy (2012) emphasized that several socioeconomic factors—including income level, educational attainment, and access to formal financial services—played significant roles in shaping an individual's ability to attain financial freedom. Their study demonstrated that individuals with limited education or income often lacked the tools and opportunities to save, invest, or plan financially, which further widened inequality(Atkinson & Messy, 2021).

According to OECD (2013), women—particularly in developing countries—faced greater structural and cultural barriers to achieving financial freedom. These challenges included restricted access to financial institutions, lower levels of financial literacy, and limited involvement in household financial decision-making. The report highlighted the need for gender-sensitive financial education and inclusive policies to bridge the gap(OECD, 2013).

In a more recent study, Demirguc-Kunt et al. (2022) reported that the expansion of digital financial services—such as mobile banking, online lending platforms, and e-wallets—had significantly contributed to improving financial inclusion. These innovations proved especially beneficial in underserved or rural regions, where access to traditional banking was limited. Their findings indicated that digital finance empowered users by offering secure, affordable, and convenient tools for saving, borrowing, and investing(Demirguc-Kunt, Klapper, Singer, Ansar, & Hess, 2022).

Methodology

This concept paper employs a qualitative research approach grounded in a review of secondary data sources such as academic journals, policy documents, financial publications, and reputable online platforms. It utilizes a conceptual framework that connects financial literacy, income diversification, saving habits, and access to financial services with economic freedom. The study uses descriptive and thematic analysis techniques to organize findings from existing literature and offer actionable recommendations.

Types of Financial Freedom

Basic Financial Security

This foundational level of financial freedom entails the ability to cover essential living expenses—such as food, shelter, clothing, utilities, basic healthcare, and transportation—without relying on debt or external assistance. It ensures that individuals have a predictable income stream capable of managing both expected and unforeseen financial needs. Attaining this level lays the groundwork for higher levels of financial independence and protects

individuals from economic vulnerability(Consumer Financial Protection Bureau).

Debt-Free Living

Achieving a state free from high-interest and unsecured debt (e.g., credit card balances, payday loans, or informal borrowings) is a critical milestone in financial freedom. Being debt-free not only alleviates mental and emotional stress but also enables individuals to redirect income toward wealth-building avenues like savings and investments. This stage strengthens one's financial decision-making ability and fosters long-term stability(National Foundation for Credit Counseling).

Investment Capacity

Investment freedom is marked by the financial capacity to channel surplus income into diverse asset classes such as stocks, bonds, mutual funds, real estate, or business ventures. At this stage, individuals are not just saving money but actively growing their wealth. Investment not only enhances future financial security but also cushions against inflation and economic downturns, contributing to broader financial resilience(Investopedia).

Retirement Readiness

This level is reached when individuals can maintain their desired lifestyle after exiting the workforce, supported by passive income sources such as pensions, rental income, dividends, or retirement savings. Retirement freedom eliminates dependency on employment income, allowing people to focus on personal development, hobbies, health, or family during later life stages. It reflects thorough long-term financial planning(OECD).

Time Autonomy (Time Freedom)

The most advanced and holistic form of financial freedom is time freedom—the liberty to decide how to spend one's time without being bound by economic obligations. Individuals at this stage are not compelled to take jobs or work excessive hours for survival. Instead, they can prioritize activities that bring joy, purpose, or fulfillment, such as volunteering, travel, or creative pursuits. This state represents the convergence of financial independence, mental well-being, and life satisfaction(Harvard Business Review, 2019).

Challenges of Economic Freedom

There are many challenges of Economic Freedom which includes

- *Lack of Financial Education:* One of the primary obstacles to attaining economic freedom is the widespread lack of financial education. Many individuals have limited understanding of essential concepts like budgeting, saving, investing, and debt management. This knowledge gap increases their susceptibility to poor financial decisions and exploitation by predatory financial services.
- *Income Instability:* A significant number of people working in informal employment, freelancing, or running small businesses experience unstable and unpredictable earnings. This income volatility makes it challenging to plan for the future, establish emergency savings, or invest consistently—ultimately delaying or derailing financial independence.
- *High Cost of Living:* Urban growth, inflation, and increasing costs of basic services like housing, healthcare, and education greatly reduce disposable income. As a result, individuals often prioritize immediate necessities over saving or investing, making it harder to progress toward long-term financial goals.
- *Consumerism and Debt Culture:* Contemporary society often equates material consumption with status and success. Influences from advertising, social media, and peer pressure encourage people to spend beyond their means. This behavior frequently leads to overreliance on credit and loans, resulting in a cycle of debt and financial anxiety.
- *Gender and Social Barriers:* Contemporary society often equates material consumption with status and success. Influences from advertising, social media, and peer pressure encourage people to spend beyond their

means. This behavior frequently leads to overreliance on credit and loans, resulting in a cycle of debt and financial anxiety

- *Policy Gaps:* Weak government policies and the absence of inclusive financial programs further inhibit economic freedom. Without robust support for financial literacy, microfinance services, and consumer protection laws, disadvantaged populations often remain excluded from the formal financial system.

Conclusion

This paper views financial freedom not merely as the accumulation of wealth, but as the capacity to make independent financial choices, manage resources effectively, and secure long-term economic stability. The analysis reveals that key contributors to financial independence include income from employment, entrepreneurship, investments, savings, and retirement funds. However, access to these avenues is often constrained by structural and socio-economic barriers.

Major obstacles—such as inadequate financial literacy, irregular income, high costs of living, reliance on debt, and persistent gender inequalities—are particularly prominent in developing contexts like Nepal. These challenges hinder individuals from engaging fully with the formal financial system and restrict their ability to attain economic self-sufficiency.

The study emphasizes that financial freedom is attainable through deliberate interventions, including financial education programs, diversified income opportunities, expanded digital financial services, and inclusive policy reforms. Providing marginalized populations—especially women—with the tools and knowledge to navigate financial systems can build resilience and contribute to overall economic progress.

In summary, financial freedom is both a personal pursuit and a collective responsibility. Achieving it requires a coordinated approach that combines individual effort with supportive systems. The paper advocates for joint action by individuals, policymakers, and financial institutions to turn the vision of inclusive financial empowerment into a tangible and equitable reality.

Recommendations

1. Incorporating personal finance topics into school and university curricula is essential to equip individuals with practical money management skills from an early age, fostering long-term financial responsibility.
2. Encouraging entrepreneurship, freelance work, and accessible investment options can help individuals build multiple income sources, enhancing financial security and reducing dependence on a single livelihood.
3. Governments and financial institutions should offer tax incentives and simplify access to safe, reliable investment platforms to motivate individuals to save and invest regularly.
4. Expanding banking services and promoting digital financial tools—especially in remote and underserved regions—can improve financial inclusion and ensure broader access to essential financial resources.
5. Developing inclusive financial products and delivering tailored financial literacy programs can help bridge the gap for women and disadvantaged groups, fostering equitable access to financial opportunities.
6. Governments should adopt robust policies that encourage inclusive economic participation while safeguarding individuals from exploitative lending practices through effective financial regulation and public awareness initiatives.

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