

Control-Based vs. Allocation-Based Budgeting

To budget or not to budget, that is the question...

It may not be obvious at first glance but to me all budgeting boils down to two distinct different flavors:

1. Control-Based Budgeting
2. Allocation-Based Budgeting

I believe that there is a time and a place for both, depending on where you are in your own unique financial journey. However, if you follow the GYFG path to wealth, you will learn to favor one of these methods over the other.

What's the Difference Between These Two Methods?

Early on in the financial journey, most will start with Control-Based Budgeting, where the focus is primarily directed at the expense portion of the income statement. A control-based budget is used to manage how much is spent on any particular category, and in any particular month. The end goal is to place a ceiling on spending (by category, month, year, etc.). When the "envelope" assigned to that category is empty, you may spend no more.

Over time this method is better aligned with those pursuing the extreme frugality path to FI.

With an Allocation-Based Budget, it's more about deciding *where* you want to spend your money, allocating funds to the areas that you believe will bring you the most joy. You don't use this budget to manage your spending on a monthly basis. Instead, you use it as a guide that is usually directionally right. It also allows you to see changes in your own wants and needs, which tend to evolve over time (we witnessed this first hand [as we prepared for our first child](#)).

Allocation-based budgeting is for those willing to focus the majority of their efforts on increasing their income rather than trying to decrease their expenses. People that choose this path realize that it's more fun to figure out how to earn more money to pay for the things they want to spend on rather than deprive themselves

(within reason of course). The end goal of allocation-based budgeting is to have a general idea of where you will be spending your money over the coming year. It doesn't control or dictate your actual spending.

Do I Budget?

You already know that [I think extreme frugality is for the birds](#) and that I prefer *relative frugality*. I personally don't like to spend much time controlling my expenses because not only does it keep me from doing the things that bring me joy, but I also know that there is a natural floor in how low anyone can cut his expenses. Plus, it puts a Freedom Fighter in the wrong frame of mind, of scarcity versus abundance.

We do put together a budget every year but for different reasons than most who are budgeting. Rather than focusing on *cutting expenses*, our budget focuses on *increasing income* to a point where the expense or expenses in question are no longer materially important. I want to have my cake and eat it, too. The sky is the limit when it comes to income generation – theoretically, there is no upside cap. I know that we're golden if we can generate a high enough income that allows us to live by [the law of 50/50](#) without much thought or effort. This law states that “you shall save 50% of your after-tax income and spend the remaining 50% guilt free.” It's a free pass to lifestyle inflation! If we want to spend more, all we have to do is earn more. This is the GYFG way.

Which Method is Better?

Both methods have their places in one's financial journey, and I recommend that people start with the control-based method to get a true feel for their money, and cultivate good financial consciousness and habits. Use this method to ensure there is a gap between your income and savings, then go to work widening that gap with more income. I say, once you feel like you have the basics down and you start to see the top line of your net worth moving up and to the right, make the transition to allocation-based budgeting.

In my home, we tend to spend a lot more time figuring out how to increase our income rather than on trying to reduce and manage our expenses. To us, it's more fun figuring out a way to earn an extra \$2,000 than it is to cut \$200 from our spending. There is a floor in how low you can cut your expenses but no ceiling on how much you can earn.

Focusing on the income side of the equation ensures we stay in a mental state of ABUNDANCE vs. a mental state of SCARCITY.

Do you budget? Do you prefer one method over the other? Do you practice an alternative method to these two?

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)