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Economic and Financial Literacy

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ASSOCIATIVE ECONOMICS

Based on the idea that economic life is the shared responsibility of every human being, associative economics is a non-partisan approach to the wide range of thought informing current economic debates. From neo-liberal to 'alternative', such views are often divergent and conflicting, of course, when what is really needed in today's one-world economy is a view that we can all 'own'.

RUDOLF STEINER

As used here,associative economics recognises its debt to Rudolf Steiner whose ideas are featured because of their valuable contribution to the task of creating a humanity-wide economy.

Focus on Financial Literacy

Reporting – Arthur Edwards and Daniel Osmer

The perception that financial literacy is an essential life-skill is now widespread, but what does it mean to be financially literate? A plethora of initiatives has arisen over the course of the past 25 years, both independently and sponsored by the state. They variously set out to educate the young, to counteract financial exclusion, and to implement effective financial planning. But what do people have in mind? For example, does financial literacy mean being able to work the numbers so that one ends up secure and wealthy, a purely technical kind of skill, or does it touch the question of how one orientates oneself in life, bringing inner purposes to expression? Furthermore, one can ask whether today's drive towards financial literacy is born of an educational ideal (becoming financially mature) or of the need to manage an external crisis (the debt and pension problem). This article surveys examples from both sides of the Atlantic that aim to promote a better understanding of finance.

Accountancy Magazine reports that the Britain's Institute of Chartered Accountants has joined forces with the charity, Personal Finance Education Group (pfeg), and GE Money, a consumer finance provider, to develop a programme of initiatives to raise awareness among secondary school pupils about the importance of managing money. President Ian Morris said: "Financial illiteracy can be one of the biggest challenges facing young people, often leading to indebtedness and social exclusion. By working with pfeg, and with the support of GE Money, I believe chartered accountants can make a real difference at the start of an individual's financial life by equipping them to approach the financial challenges they face with confidence and understanding."

Pfeg's mission - 'to make sure that all young people leaving school have the confidence, skills and knowledge in financial matters to take part fully in society' – is seen by its chairman, Ron Sandler, as addressing the need for "a real life perspective to what can be a very complex subject." In the USA, the Jumpstart Coalition has similar aims - 'to encourage curriculum enrichment to ensure that basic personal financial management skills are attained' – while between 2000 and 2005 the Economic Independence Fund, jointly administered by American Express Foundation and the National Endowment for Financial Education, distributed more than $3M supporting financial literacy education to under-served segments of society.

Lately, independent initiatives of this kind have become overshadowed by state-sponsored programmes. For example, in the UK the Financial Services Authority (FSA) includes financial education among its objectives. The FSA recently conducted a survey which set out to create a baseline measurement of what it calls 'financial capability', namely, how well people make ends meet, keep track of their finances, plan ahead, choose financial products, and stay informed about financial matters. The results of this exercise were both predictable and problematical, finding, for example, that many people, and especially the under 40s, are not taking basic steps to plan ahead sufficiently for their retirement or the proverbial 'rainy day'. This gloomy prospectus has led to a call for more intervention by the FSA itself, in the form of a 7 point programme reaching into schools, as well as a five-year scheme to run in universities and workplaces and also be available to new parents.

Ivan Lewis, Economic Secretary of the UK Treasury, sees this as a key role for government: "It is crucial that we recognize … that the earlier we intervene the better. The difference we can make with young people is central. My own view … is that the problem you often have is persuading the educationalists that this is part of their core business, and not some sideshow… It is important that we do not create a separate subject called 'financial literacy' or 'financial education'. There is a very strong case for integrating this into the curriculum."

On the other side of the Atlantic, Dan Iannicola, Jr. of the Office of Financial Education in the US Treasury says, "In the US, we found that the private sector is not just important to advance financial education; it is essential. We will simply not achieve financial literacy without them…we find that many of the best solutions come from the grass roots… These organisations got into financial education because they had an idea, a passion, and that is something we do not want to discourage. When it comes to financial education, it is important for government to realise that in

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most cases it is not 'first on the scene'... We in government need to avoid the temptation of imposing an imperative of centrality - of thinking that, if all financial education is not streamlined under one government office or department, it is ineffective and without merit. Indeed, the contrary is true. Here, making sure financial education actually reaches people is more important than the means of having an exclusive, central government bureaucracy… Partnering across sectors and across each of our countries is not just a good way to reach our goals; it is the only way."

Such state-backed approaches are likely to become more widespread following the Organisation for Economic Co-operation and Development's (OECD) recent study on financial education, *Improving Financial Literacy: principles, programmes, good practices*, which they claim is the first international study on this important issue. The OECD's Financial Education Project was launched in response to governments' concerns about what they could do to help consumers deal with increasingly complex financial decisions.

Deputy Secretary General, Richard Hecklinger, says, "There are three main reasons why financial education has become so important. One is that an increasing number of workers will have to rely on defined contribution pension plans and their personal savings to finance their retirement... The second is that consumer debt is at a record level and the deregulation of financial markets has led to increased competition for new credit card holders. As a result, many young people have been burdened with high debts at a time when they are trying to start a family and buy a home. And the third is that with the growth in the number of financial transactions taking place electronically, it is increasingly important that individuals have, at least, a bank account."

In April in California, the first Financial Literacy Summit was held with 500 Certified Public Accountants (CPAs), educators, and community leaders to discuss the 'financial literacy crisis' in America. The presenters made the case for the looming disaster awaiting youth worldwide as we learn the extent of the total lack of financial and economic understanding needed to operate in a modern world. The title of one presentation summed up the reasons for the gathering: *Unprepared: On the Brink of Adulthood and Financial Disaster.* As educators perhaps we need to unlearn what we think we know about economic life and the world of finance. In the process, we may find a better approach for empowering youth and the underserved to develop their latent talents and generate wealth or, better put, economic value. For many the purpose of financial literacy is to train consumers to find the cheapest price for products and pursue the accumulation of assets efficiently in order to provide for one's own future. But an activist banker, John Bryant, turns this dry and acquisitive attitude on its head. He teaches financial planning and wealth generation to inner city youth. His program, *Banking On Our Future*, has taught 170,000 young people the basics of managing their financial futures. Bryant is quite clear what is at stake – the destinies of young human beings and the communities they live in – not just wealth acquisition and self interest. He wants to turn inner city youth into entrepreneurs that revitalize the blighted areas while at the same time generating cash flow and wealth *for each other*.

From an associative perspective, financial literacy is really our perception of and confidence in the future and the ability to cooperate with each other in order to fulfill our individual destinies by serving the community. The evolutionary principle of the division of labor naturally comes about when individuals work together in any economic task. The more it comes into effect, the more each individual does less and less for himself and more and more for others. Rather than just self-interest alone, therefore, it is truer to say that each individual will be provided for in the best possible way when no one provides for himself but only for others. We don't always recognize it as such, but good business is about meeting human needs well by applying talents learned in the context of community. Understanding finance must involve being able to see beyond one's own isolated circumstance into the overall context in which it is set and from which the numbers derive meaning.

A touchstone for any kind of education in financial literacy will be whether and how it includes accounting, the knowledge of which provides a surer financial foundation than mere inclusion in the so-called 'financial system'. This tends to mean familiarity with and competent use of available financial products and services and is rather like being able to drive a car without necessarily knowing what is under the bonnet, or how the road network is laid out. Yet literacy means both reading and writing – the former is an essentially passive capacity, the latter an active one. Without both, one is not fully literate. Finding one's path in life is not just a matter of bouncing off the bumpers; to be financially literate means to know where one is going, not just how to read a map. Technical skill is necessary, but the deeper meaning of finance should not be left out.

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