

# The Societal<sup>1</sup> Role of Financial Literacy

*Exploring the Economic Significance of Financial Education for Young People*

A project description and application for funding

Arthur Edwards, July 2010 / mail@arthuredwards.net

## Contents:

1. <i>Project Summary</i>	1
2. <i>Research Auspices And Partners</i>	1
3. <i>Overview</i>	2
4. <i>A Doctoral Research Project</i>	3
5. <i>Anticipated Outcomes</i>	5
6. <i>Testimonials</i>	5
7. <i>Financial Information</i>	6

## 1. PROJECT SUMMARY

*What is financial literacy; how should it be taught; and what are its macro-economic consequences?*

The aim of this project is to further the development of financial literacy that is robust enough to engender societal as well as individual economic outcomes. The three questions above constitute the core of a research project that aims to establish a link between the crisis in finance and the kind of economic education that has informed our society in its financial behaviour to date.

The research surveys a range of curricula and practices currently on offer under the rubric of 'financial literacy' and examines what fundamental approaches to finance they instil, and whether these are made explicit or not. It compares the everyday understanding of financial literacy, normally premised on personal finance, with an approach which uses accounting to illustrate how, through trade and capitalisation, individuals can learn to 'read' their relationships to the economy at large and then through appropriate financial management 'write' their contribution directly into today's circumstances.

The acid test of true financial literacy is whether the behaviour of financially literate individuals gives rise to a socially functional economic life. The primary question this research explores concerns the degree to which economic behaviour is informed by financial education; then it asks whether such education takes place coherently (through a paradigm that is consistent with its subject) or incoherently (because it relies on inapt thinking), and concretely (through accounting as an instrument to make one's circumstances visible) or abstractly (because of dependence on models that aim to approximate real events).

## 2. RESEARCH AUSPICES AND PARTNERS

The research is being undertaken as a doctoral study by Arthur Edwards, *MA Oxford, MPhil Buckingham, Dipl AE*, at the University of Bristol. Mr. Edwards is also playing a leading role in an international collaboration on *The Importance of Economic Literacy for Our Time*, a

---

<sup>1</sup> 'Societal' meaning being able to see one's activity from society's point of view, for example by the use of accounting to make visible and include counterparty relationships.

project that seeks to develop more relevant approaches to teaching economics in *Waldorf Schools* and in secondary education generally. Throughout he will be drawing on his ongoing activity giving public workshops and courses in schools, events that provide an in-field dimension to his research. He aims to influence the public policy agenda through his journalistic activity and participation in debates among other researchers and policy makers.

### 3. OVERVIEW

#### *The Situation Today*

There are at present a plethora of organisations working variously to promote financial capacity, personal finance, enterprise education, financial inclusion, financial literacy etc; in the UK these range from governmental agencies such as the Bank of England and the Financial Services Authority (as is), to charities to such as PfEG and Transact, to companies such as banks. What is clear is that while these organisations have a variety of materials and services on offer, there is little fundamental research in this area: fundamental in the sense of posing questions about the nature of finance and the way we understand it.

#### *The Financial Crisis – Whose Responsibility?*

The recent and continuing financial crisis has been identified as a crisis in economics, namely in how economic life is perceived and understood and therefore how courses in economics are taught. There are few economists to be found today who can stand wholeheartedly for the textbook approach by which students are introduced to the subject. Indeed, there are many eminent economists, like Professor Charles Goodhart of the London School of Economics, who lay the blame for our present malaise squarely at the door of the economics profession, past and present. Nor is there a shortage of ‘alternative approaches’ which reflect the fractured nature underlying the apparent uniformity of economics. But few of these offer a wholly new approach; for the most part they prefer a particular emphasis while leaving in place the terminology, methodology and general framework of economics as it has developed. Most programmes assume all is well in our understanding and treatment of finance.

#### *Economics through Accounting*

A paper ironically entitled *No-One Saw This Coming* by Dirk Bezemer of Groningen University documents exactly how predictable the unwinding of the banking system actually was by citing those economists who pointed to what lay ahead before it came. Interestingly, the paper is subtitled *Understanding Financial Crisis Through Accounting Models* and Bezemer describes it as a “a plea for research into the link between accounting concepts and practices and macro economic outcomes.” While one can find a similar view in the work of Sir John Hicks for example, when it comes to numbers for the most part mainstream economists have been content to prefer algebraic modeling of aggregates and statistics to an accounting approach.

#### *Finance and Financial Literacy*

Such concerns may seem far removed from the average classroom in which few of the students can be expected to take an active interest in what economics is or ought to be. Nevertheless, they will not be unaffected by finance, how it is understood by economists, and how that understanding is embedded in the materials they use and conveyed by their teachers. It is not that they must understand the subject at the level of the well-informed professional economist, that would be unrealistic (after all one does not need to know how

to build a car in order to know how to drive one), but a view of money based on accounting grounds students in their own circumstances. By contrast, an unexamined or naïve idea of money based on abstractions and aggregates creates an external dependence.

#### *Widening the Scope of Financial Literacy*

In the above sense the project aims to look at present understandings of finance and financial literacy with a view to analysing what is included in curricula and what, though currently left out, belongs to a fundamental yet practicable approach. A key question concerns whether accounting can serve as an instrument of perception (making invisible monetary-economic phenomena visible), whereby through perceiving his circumstances an individual can better orient himself in regard to them and therefore base his actions on an informed view, rather than ephemeral notions of finance. The implication is that through an accounting perspective, the way in which an individual is related to the wider economy through balance sheets and trading accounts becomes transparent and tractable. The methodology of the study is outlined in the following section.

#### 4. A DOCTORAL RESEARCH PROJECT

The applicant is preparing doctoral research at Bristol University entitled *The Societal Role of Financial Literacy*. The following is an excerpt from his research outline.

##### **Introduction**

The term 'financial literacy' is normally used in relation to *personal finance*, how a person manages his own affairs. While this provides an understandable starting point from which to approach the subject, personal finance tends to be limited to the circumstances of the person, leaving those of his counterparties out of the picture. Complementary to personal finance, *societal finance* widens the concept of financial literacy because it entails the trading and capital relationships between a person and the rest of society. It enables a practical grasp on the part of the individual of complex financial questions through the medium of accounting. Were financial literacy qua *societal finance* better treated as a core curriculum subject, might it equip young people with tools that would assist them to manage better their own undertakings? For example, financial planning requires that students make realistic sales projections, describe comprehensively how a venture is capitalised, understand what it means for an activity to be audited, and be aware that all transactions have their correspondences in the economy at large. Would such an exercise awaken individual consciousness to the societal nature of finance? The proposed research will examine whether financial literacy, enhanced in this way, can be adapted to a classroom context.

Increasingly, responsibility for finance is devolving to the individual. External monetary guidance, by central banks for example, relies more and more on individuals' direct management of their circumstances. The issue is not whether the prevailing culture of finance, now seen to be fragile, is built on false assumptions, coloured by vested interests, or undertaken in a negligent manner (all of which may or may not be the case); the issue is that people have come to rely upon the rightness of the arrangements made on their behalf. Such arrangements have not proved as reliable as supposed. If individuals are to stand on their own feet, they must take hold of their economic existence by grasping directly a realm that was previously explained to them and managed for them. But how well does financial literacy, if limited to the realm of personal finance, measure up to the task of equipping young people to do this? Is it enough to consume 'financial services', to be told how interest compounds, or to be inculcated with a 'saving' ethos without necessarily being able to distinguish saving from investment or know what has actually been 'saved'. Indeed

does such an atomised approach work, when generalised to the level of society? Normally, 'literacy' refers to the ability to read and write a language, or in a more comprehensive version to read, write, spell, listen and speak. How do things stand with financial literacy? In a weak form, financial literacy would confine itself to personal affairs and assume an ability to 'read' financially, but not necessarily to 'write', equating to the idea that a financially literate person, although economically active, does not in fact comprehend the financing of his activity. A stronger form of financial literacy means being literate in one's *own* economic undertaking and not being intellectually dependent on third-party financial services or explanations.

## **Research Procedure**

### *(a) Surveying Current Practice*

To survey present teaching approaches and to establish to what perspective or paradigm they belong. Distilling key concepts by:

- Reviewing current literature
- Analysing curriculum materials in current use
- Devising a questionnaire to be completed by financial literacy service providers
- Conducting interviews among individuals and organisations active in promoting financial literacy (including, for example, banks, the *Personal Finance Education Group* and the *Financial Services Authority*)
- Summarising the findings of the above in a tabulated format and testing whether this represents a coherent paradigmatic approach

### *(b) Describing the Accounting Approach.*

To describe the societal accounting approach to the teaching of financial literacy and identify the underlying principles from which it is derived. Do these span coherently from the sophistications of monetary policy to the entry-level concepts taught in secondary schools? How are they embodied in curricula that represent this approach?

### *(c) Comparative Study*

Through a comparative study of (a) and (b), contrasting how the various approaches differ in relation to specific higher level concepts: *inter alia* reference to an explicit idea of money, presumption of employment or entrepreneurship, understanding of the evolution, significance and technique of bookkeeping, view of human intentions, inclusion of professional calling / labour markets, whether income is fixed or 'earned' through sales. This will be set out in an extensible spreadsheet format that allows for inclusion of diverse paradigmatic approaches (for example enterprise education is distinct from personal finance).

### *(d) Conclusions and Recommendations*

Producing a stand-alone report:

- 1) detailing the research conclusions (including the wider context and significance of an enhanced view of financial literacy),
- 2) identifying strengths and weaknesses of present practices,
- 3) describing a flexible model curriculum that would both embody a clear financial logic and engender more informed economic behaviour.

## 5. ANTICIPATED OUTCOMES

This project will enable the author to explore how different ideas of money come to expression in financial literacy curricula and to develop an expertise in this under-researched yet crucially relevant aspect of economic life. The following outcomes and long-term goals are anticipated:

- Publication of a dossier of conclusions outlining best practice and inviting responses from various stakeholders to assess possible take-up
- Contributing to a change of emphasis in how financial literacy is understood and establishing a benchmark for what should be included in financial literacy teaching
- Development of financial literacy research as an established area of academic interest and using the project to leverage the formation of a research community looking at the underlying principles and practices upon which financial literacy is based and giving rise to appropriate materials.

The long-term intention is to promote curricula that incorporate financial literacy through accounting, both by continuing research and by offering courses. This could eventually lead to the setting up of financial literacy colleges which will enable *Societal Finance* to become embedded as best practice by: helping students to learn what it means to be in business on 'one's own account' (initially through the financial planning of potential scenarios but then by actual business undertaking based on their own ideas and life intentions) and pre-empting the need for the corrective action that becomes necessary when the behaviour of individuals contradicts the logic of economic events, now essentially global.

## 6. TESTIMONIALS

**From MPhil supervisor Professor Geoffrey Wood** (special advisor to the Bank of England on financial stability and House of Commons Treasury Select Committee):

...the study has yielded what I think is a fascinating MPhil, and one that is, incidentally, very well written.

**From former IMF Economist Gunnar Tomasson:**

I wish to congratulate you on your evident grasp of the importance of monetary economics and of clarity with respect to its conceptual foundations. This is a great thesis topic and your approach is sure to advance the cause

**From Buckingham MPhil Examiners' Reports:**

The thesis demonstrates a deep understanding of a literature which is given very limited treatment elsewhere. It involves a complex and nuanced analysis which the candidate communicates well. The methodology, including innovative developments of diagrammatic representation, is appropriate and used effectively. The findings are given a valid interpretation. The coverage of the literature extends from old texts to very modern texts, demonstrating critical appraisal and original synthesis. By marshalling complex ideas from a large literature, and justifying a particular interpretation and extension to modern times, the candidate demonstrates independent analytical skills and the ability to marshal textual evidence.

The thesis:

- demonstrates understanding of the theoretical field, and indeed addresses directly and at length the relation between abstract monetary theory and monetary practice.
- is written and presented reasonably clearly, except for the introductory chapter, which needs attention.
- addresses an under-researched topic and shows originality in the way it is handled. the overall quality of the research is very high, demonstrating admirable scholarship.

Mr. Edwards presented himself well at the oral examination explaining his thesis. He answered all the questions asked of him and explained a number of matters that the examiners sought clarification on. It was clear that he had researched his subject well and could apply to research in a number of important areas.

## 7. FINANCIAL INFORMATION

The research will last from 3-4 years. The total amount sought, which includes 3 years of fees, travel costs, living costs, materials and office costs (amounts shown increase in line with an assumed rising price index) is £86,887.50. The minimum needed is £3,440 (i.e. the first year's tuition costs) which would provide the seed-funding needed in order to initiate the project. The livings costs are based on a doubling of standard university allowances for a single person, in light of the fact that Mr. Edwards is married with dependents.

Where relevant, donations can be made through a UK registered charity: **The Associative Economics Research Fund**, c/o Hermes Trust, The Old Painswick, Inn, Gloucester Street, Stroud GL5 1QG, UK. Tel +44 (0)1453 763900 / email hermes.trust@freeuk.co.uk. **Paypal:** hermes-trust.org.uk/pages/donate.html (please specify AME PhD). All contributions will be acknowledged and donors will be kept up-to-date with research progress and (unless otherwise requested) formally thanked in the final public dossier.

AME Research Budget		2010/2011	2011/2012	2012/2013	Totals
<b>Fees</b>	University of Bristol	3,440	3,784	4,162	11,386
<b>Travel</b>	Bristol	1,350	1,485	1,633	4,468
	UK	360	396	435	1191
	International	600	660	726	1986
<b>Living Costs</b>		19,200	21,120	23,232	63,552
<b>Materials</b>		300	330	363	993
<b>Office</b>		1,000	1,100	1,210	3,310
<b>Totals</b>		26,250	28,875	31,761	<b>86,886</b>
<b>Grand Total</b>					<b>£86,886</b>