Learning to Stretch a Dollar:
Evidence of Financial Literacy among Low-income Canadians

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Abstract
Neoliberalism—an approach that sees markets and consumers as key agents for improvements in well-being—has had a variety of affects on different groups in Canada. While it has tended to place greater responsibility on individuals in regard to their financial well-being it requires different groups to develop different types of financial literacies. The financial literacy required for low-income people may be different from the financial literacy for middle-income people. This presentation introduces the idea of financial literacies and then, drawing on data from field research undertaken in three Canadian inner-cities, it seeks to examine respondents’ financial literacy. The results were that generally respondents were financially literate and made rational decisions dealing with knowledge and skills and about their family’s budget, their credit and savings plans and were reasonably knowledgeable about relevant government programs and banking services. Where constraints were noted in financial literacy they related more to attitudes about finances and life goals and to detailed knowledge about institutional policies.
1) Introduction

Neoliberalism, an ideology that highlights the role of markets and consumers to meet human need, is shaping policies that affect Canadians’ financial and overall well-being. Here the role of the state is assigned to providing laws and policies to enforce property rights. Neoliberalism has old roots but has risen to prominence in much of the global North since the 1980s. It has affected a broad range of outcomes and policies that relate to financial literacy including income distribution, government policy and banking service provision.

Neoliberal-oriented policies have differential affects regarding financial literacy needs across income groups. For instance the devolution of pension planning from government and business to individuals has been influenced by the notion of consumer sovereignty, a neoliberal concept. It has been identified that as certain groups of individuals become more responsible for their retirement savings, there is a need for improved financial literacy around pension planning. But this requirement applies to people who depend on retirement savings beyond what is provided by government, i.e., primarily middle-income Canadians. Since low-income Canadians do not save as much for retirement this type of financial literacy may not be as relevant for them. But for low-income Canadians other types of financial literacies may be relevant such as knowledge about income security programs and the full costs and benefits of fringe banking.

Neoliberalism results in a situation in which people of low-income level face a very different income, policy and banking service reality than do people living in a middle-income level.

The purpose of this paper is to explain why institutional context matters when considering financial literacy and to analyse financial literacy among low-income residents of three inner-cities in Canada. This paper seeks to analyze, not measure financial literacy among low-income residents of three Canadian inner-cities. Measuring suggests that financial literacy is a simple, quantifiable variable for which a simple indicator such as ‘do you prepare a household budget’ exists. While this variable is no doubt a useful indicator of financial literacy this paper finds that financial literacy is more complex requiring a qualitative approach.

While the paper argues that people’s financial literacy needs vary across income\(^1\) this is not to say that this state of affairs is a good one. The existence of widely different financial literacies suggests the existence of widely divergent incomes. That some people within the population require the most basic of financial literacies suggests poverty is a serious problem. Both high levels of income inequality and poverty are troubling.

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\(^1\) Financial literacy needs vary within an income level as well. Consider two people of equal income, one a small business operator and the other a tradesperson. For their personal or household maintenance their financial literacy needs might be quite similar. However with respect to their working lives, the small business operator’s financial literacy needs are likely more elaborate than the tradesperson. To successfully operate a small business the operator requires knowledge of balance sheets that the tradesperson may not need.
a) Defining Financial Literacy

Financial literacy or capability has to do with management of money to achieve some goal such as, *having the appropriate knowledge, skills and attitude to maintain or promote one’s financial well-being*. This definition contains three components,

- Knowledge about processes (policies and programs) affecting household finances from macro economics to household financial planning
- The skills or ability to undertake certain activities like budgeting, comparison shopping & financial planning
- The attitude or sense of some control over one’s life, that one can make decisions that impact on one’s life and not that one’s life is out of control.

In addition this definition assumes that since people face very different financial situations the knowledge and skills they need to maintain or promote their financial well-being will vary. While it may be very important for a middle-income person to understand risk and yield differences across different types of investments, this may not be relevant for low-income people. Conversely, it is critical for a person relying on social assistance to know how welfare program policies affect his/her personal savings this is irrelevant to an employed person. Budgeting skills for a household of 5 with annual income of 100,000 will look very different to the skill required for a single person earning minimum wage.

What is arguably common for all people’s financial literacy is their attitude: that people, regardless of their income level, have a sense of some control over their life. That they understand that they can make decisions that can positively affect their future. A person’s future is not completely subject to external forces. One might have sufficient financial knowledge and skills but if one believes she/he is helpless then one cannot put into practice the actions to maintain or improve one’s financial well-being.

2) Research Methods

To analyze financial literacy a variety of different research methods can be used to generate data. The most common types of research methods are quantitative, qualitative and participatory. This section describes quantitative and qualitative methods, leaving participatory methods out of this discussion, and then discusses each method’s strengths and weaknesses. Finally, this section explains the research methods that inform this particular study.

a) Types & Purposes of Different Types of Data

Research methods are often categorized as quantitative, qualitative and participatory. While a clear distinction between each method does not exist, it is often possible to place a research method under one, or possible two of these categories. Quantitative methods seek to describe social phenomenon with numbers (e.g., means and standard deviations) and allow for statistical comparison. Qualitative methods seek to uncover the complexity of social relationships. Quantitative research methods, rooted more in economics and sociology include controlled experiments and large-scale surveys. Qualitative research methods, rooted more in Anthropology & Cultural Studies include life histories and

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2 Whereas *economic* typically refers to the ‘real’ economy, i.e., physical production.
participant observation. Of course it is possible to design surveys to include qualitative elements (e.g., open-ended questions) and it’s possible to design life histories to facilitate quantitative analysis (e.g., counting words).

There is often a perception that quantitative methods are more rigorous than qualitative methods but this is not so. Sometimes the opposite is true, that quantitative methods lead to “false rigour” (Kanbur, 2002) and that qualitative methods are rigorous. In thinking about the economic assumption, that consumers engage in voluntary and informed transactions, Kanbur writes,

Simplistic interpretations [of voluntary and informed transactions] can lead economists astray and causes a disconnect between them and the general public on issues such as trade in highly toxic waste or child labor. Anthropology is a discipline well suited to deepening the understanding of ‘voluntary’ and ‘informed’ within a cultural context, which would help economists understand better where their core principle is applicable and where it is not, and help policy makers understand whether the prescriptions of economists that flow from the core principles are relevant (Kanbur, 2001, p.481).

To resolve this challenge, Kanbur calls for the use of ‘cross-disciplinary’ approach to research of development issues. This would involve the use of qualitative and quantitative methods to understand complex social phenomenon like poverty and development. Methods would be selected based on appropriateness for the goals of the research.

Quantitative and qualitative methods each have strengths and weaknesses in assisting our understanding of social phenomenon (Table 1). Quantitative methods provide descriptive characterization of a population. They also allow for comparison between sub-groups of the population. Quantitative methods assist us in understanding causation but often time’s statistical methods make causation difficult to assign. In seeking to understand financial literacy it is important to know how many people in Canada can complete certain objective tasks needed to be financially literate. Quantitative methods can assist in this goal. Quantitative methods are less suitable to understand why some people are more likely to be financially illiterate. This is where a qualitative method proves to be useful. Qualitative methods, allow for digging more deeply into particular case studies or sub-groups to draw out a more nuanced characterization and understanding of cause and effect.

An important strength of quantitative methods is that they are quite reliable. If a method is reliable it means that undertaking the survey again with a different sample would lead to the same results: that is the nature of probability sampling. A survey asks respondents if they maintain a household budget defined as listing all sources of income and expenses such that it can track its deficit/surplus finances. Every time the probability sampled survey is implemented similar type results arise. However, being reliable does not make a result valid. Validity, in the statistical sense is how well the result truly represents the population. A result may be reliable but not valid. For instance, the survey may have found that lower income people responded more often negative to the question about maintaining a household budget. But it could be that because many low-income
Canadians rely on social assistance where rent is often paid for directly from the agency to the landlord and, once groceries are paid for, little extra income remains that low-income Canadians don’t use a full household budget but simply assign different income to different expenses (see below). Thus the quantitative survey provided reliable data that was not entirely valid. Thus in this case the use qualitative data is very useful to cross-check. The nuanced analysis stemming from qualitative methods detracts from its ability to provide statistically significant descriptions of large populations.

A further strength of qualitative methods is that they are generally less expensive and more flexible relative to quantitative methods. Quantitative methods tend to be less flexible and more expensive than qualitative methods. If the quantitative survey can be administered by the respondent (via mail or web based survey) then these costs can be reduced.

Table 1. Qualitative and Quantitative Methods

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Quantitative Methods: Surveys</th>
<th>Qualitative Methods: Field Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Useful to describe characteristics of large populations</td>
<td>-Effective for studying nuances of, &amp; in-depth social processes</td>
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<tr>
<td>-Surveys can sometimes be self-administered &amp; therefore relatively inexpensive</td>
<td>-May be valid (true representation of social phenomenon)</td>
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<tr>
<td>-Common definitions can be used for all respondents</td>
<td>-Relatively flexible &amp; inexpensive</td>
<td></td>
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<tr>
<td>-May be reliable (same results over and over)</td>
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<table>
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<tr>
<th>Weaknesses</th>
<th>Quantitative Methods: Surveys</th>
<th>Qualitative Methods: Field Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Standardization of questions may eliminate from the research issues which are important for some people</td>
<td>-Can’t arrive at statistical descriptions of large populations</td>
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<tr>
<td>-Surveys can reveal only limited aspects of social life</td>
<td>-Not highly reliable (same results over and over) but</td>
<td></td>
</tr>
<tr>
<td>-Surveys are inflexible &amp; expensive relative to qualitative methods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-May not be valid (true representation of social phenomenon)</td>
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b) National Level Quantitative Data

National survey data which includes indicators of financial literacy are limited. The main sources of these data are Financial Consumer Agency of Canada sponsored surveys (2001, 2005 & 2006) and Statistics Canada’s Survey of Financial Security (1999 & 2005). The FCAC surveys include a number of questions related to knowledge about financial services and the Survey of Financial Security has a series of questions about financial behaviours including a question about having a household budget (Table 2). Data gaps exist with reference to other aspects of financial literacy such as household financial planning and knowledge of the macro-economy.

Table 2. Quantitative National Surveys with Questions Related to Financial Literacy

<table>
<thead>
<tr>
<th>General</th>
<th>(Related Studies: SEDI &amp; St. Christopher House, 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Knowledge</td>
<td></td>
</tr>
</tbody>
</table>
| Banking services | -EKOS Research Associates Inc./FCAC, 2001  
-Ipsos-Reid Corporation/FCAC, 2005  
-Les Études de Marché Créatec +/FCAC, 2006  
(-Related Studies: Buckland, 2007) |
| Government Social Assistance | (Related Studies: SEDI, 2008) |
| (2) Skills | |
| Budget preparation & monitoring | -Statistics Canada SFS, 1999  
-Statistics Canada SFS, 2005  
-Les Études de Marché Créatec +/FCAC, 2006 |
| (3) Attitude | -Les Études de Marché Créatec +/FCAC, 2006 |

With specific reference to having a budget, 42.3% of SFS respondents indicated that they have one in 1999 while a slightly larger percentage, 46.3% said they had one in 2005 (Table 3). The FCAC sponsored survey in 2006 found that two-thirds of respondents had a household budget but that only one-third of respondents followed the budget closely. That more than one-half of households do not have a household budget or only have a budget ‘more or less’ is an important indicator of low financial literacy. There does not appear to be a large variation across income in maintaining a budget. Average income for respondents having a budget was not very different from those who did not have a budget in both Surveys of Financial Security. What is concerning is that, even with limited household budgeting, the 2006 survey noted a high level of confidence among respondents about financial decisions.

Findings indicate a high level of self-confidence [about making effective financial decisions] among consumers. Overall, almost all respondents (92 percent) felt at least ‘somewhat’ confident and almost half (44 percent) felt ‘very’ confident (Les Études de Marché Créatec +/FCAC, 2006).
Table 3. Data on Maintaining a Household Budget

<table>
<thead>
<tr>
<th>Survey</th>
<th>Question</th>
<th>Response</th>
<th>By Income*</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Les Études de Marché</td>
<td>Follow Household Budget?</td>
<td>Follow Closely = 1/3, More or Less = 1/3, No = 1/3</td>
<td>Not Available</td>
</tr>
<tr>
<td>+/FCAC, 2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFS, 2005</td>
<td>Have a Household Budget?</td>
<td>Yes = 46.3%, No = 53.7%</td>
<td>Yes: average income = $42,180, No: average income = $41,823</td>
</tr>
<tr>
<td>Section K</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFS, 1999</td>
<td>Have a Household Budget?</td>
<td>Yes = 42.3%, No = 57.7%</td>
<td>Yes: average income = $36,178, No: average income = $36,265</td>
</tr>
<tr>
<td>Section L</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*For Survey of Financial Security data was restricting to after tax family income between $0 & $100,000.

c) Data for this Analysis
The data used for this analysis comes from field research conducted over the last two years in three inner-city neighbourhoods: Parkdale, Toronto; Downtown Eastside, Vancouver; and, various inner-city neighbourhoods in Winnipeg. None of the surveys focused on the issue of financial literacy but each one of them dealt with related issues such as financial service choice, financial planning over one’s lifetime and weekly finances.

These research methods used were mixed methods with quantitative and qualitative components (Table 4). Respondents were not systematically asked questions about their financial literacy but in the course of the interviews they raised many issues that related to financial literacy. The financial choices survey separately interviewed 82 respondents in roughly equal numbers in the three neighbourhoods. The questionnaire asked about what financial services were used for what purpose and why. Financial life histories were a qualitative method that separately involved 20 respondents. These respondents were asked to talk about their adult life and help the interviewer to understand the major periods in the respondent’s life. Then the respondent was also asked to elaborate on the financial status and their choice of financial services associated with each major period. The financial diaries are a method that was tested in the early part of 2008 with 3 respondents. It is a mixed method that involves meeting twice a month with respondents for an extended period of time (up to one year). The test was undertaken for three months and the method is now being fully implemented with 15 respondents in the three sites. For all methods analysis of the qualitative data used a standard process of identifying major themes from the interviews, coding responses by theme and then mapping relationships among the themes.

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3 To see the questionnaire for the Financial Choice Survey see Buckland & Fikkert, 2008.
4 For details on the method of analysis used for the Financial Choice Survey see, Buckland & Fikkert, 2008.
Table 4. Sources of Data for this Presentation

<table>
<thead>
<tr>
<th>Field Work</th>
<th>Sample size</th>
<th>Recruitment method</th>
<th>Locale</th>
<th>Types of Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Choices</td>
<td>82</td>
<td>Snowball sampling</td>
<td>Toronto/Parkdale, Vancouver/Downtown Eastside, Winnipeg/Inner-city</td>
<td>Quantitative and qualitative questions about what financial services respondent uses, why and her/his evaluation of it</td>
</tr>
<tr>
<td>Survey</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Life</td>
<td>20</td>
<td>Purposive</td>
<td>Toronto/Parkdale, Vancouver/Downtown Eastside, Winnipeg/Inner-city</td>
<td>Narrative of respondent’s adult life with emphasis on chief periods (e.g., employment, location) with directed questions about household finances and financial service choice in each period.</td>
</tr>
<tr>
<td>History</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Diaries</td>
<td>3 (15 full)</td>
<td>Purposive</td>
<td>Winnipeg/Inner-city</td>
<td>Twice a month tracking of respondent’s finances with qualitative questions about them and about, life, financial and financial service choice plans.</td>
</tr>
<tr>
<td>Test</td>
<td></td>
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</tbody>
</table>

Less than one-half of the respondents to the financial choice survey were women and just over were men (Table 5). On average, respondents came from a disadvantaged socio-economic situation. For instance average annual household income was just under $18,000 but family size was also small at just under 2 people. The fraction of the sample relying on social assistance was highest in Vancouver at almost three-quarters and also high in Winnipeg and Toronto at almost 60 percent. Almost one-quarter of the sample declared their ethnicity as aboriginal while 53 percent claimed ethnicity with European roots. Just fewer than 10 percent of the sample indicated ethnicity from Asia or Africa.

Table 5. Some Socio-economic Indicators of Financial Choice Survey Respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub-categories</th>
<th>% Total or $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>Men</td>
<td></td>
<td>57%</td>
</tr>
<tr>
<td>Income</td>
<td>Mean</td>
<td>$17,969</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>$14,742</td>
</tr>
<tr>
<td>Family Size</td>
<td>Mean</td>
<td>1.98</td>
</tr>
<tr>
<td>Reliance on Social Assistance</td>
<td>Mean</td>
<td>63.9%</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>Aboriginal</td>
<td>24.1%</td>
</tr>
<tr>
<td></td>
<td>European Origin</td>
<td>53.0%</td>
</tr>
<tr>
<td></td>
<td>Métis</td>
<td>3.6%</td>
</tr>
<tr>
<td></td>
<td>Asian or African Origin</td>
<td>9.6%</td>
</tr>
<tr>
<td></td>
<td>Other/Unknown/Refused</td>
<td>10.4%</td>
</tr>
</tbody>
</table>
3) The Institutional Context Varies
Before examining the results of the research this section examines why the institutional context faced by low-income people is sharply different from the one faced by middle-income people. If the institutional context is different then the financial literacy requirements for low-income people are possibly different than for middle-income people.

An obvious and central institutional challenge faced by low-income Canadians is their low income, both relatively and absolutely. While national income has risen through the 1990s, income of low-income Canadians —working and relying on social assistance— has stagnated or declined (La Novara et al., 2003; National Council on Welfare, 2005). This reflects stagnating or declining social assistance rates and little improvement in real wage rates. For the period from 1981 to 2006 income inequality has risen, the bottom quintile group has seen a declining share of that income and for many middle-income people, their national income share has stagnated (Osberg, 2008). What institutional changes have caused this stagnating income for low-income people and rising inequality is not addressed here. Presumably it relates to changes in the labour market and income security programs offered by government. The reason for raising this issue is that the income trends both relatively and absolutely create an important institutional context in which people develop and maintain their financial literacies. If one’s current and expected future income is low then rationally one will develop or maintain the modest financial literacy necessary for that low income level.

In addition to stagnating or declining incomes, people reliant on social assistance face other institutional constraints to financial literacy. Recipients are limited in the amount of liquid assets they can hold before entering the program and the amount the save while in the social assistance program. This level varies by province but averages $775 for a single person and $1,762 for a single parent with one child across all provinces and 1 (Yukon) territory (SEDI, 2008). Savings beyond these levels leads to a reduction in social assistance. Current income is not the only thing affected by savings: future entitlements can also be affected. For instance, in the case of the pension entitlements retirement income from personal savings reduces future GIS payments. Not to mention that the income tax benefits of registered savings are irrelevant for welfare recipients. The combination of affects on current and future income creates financial obstacles of welfare recipients that some have called a welfare wall. These barriers act as a disincentive to welfare recipients to improve their financial literacy. If their income is limited now and in the future then why bother improving one’s financial literacy beyond the modest level it is today?

A final important barrier to improving one’s financial literacy relates to the banking system one finds in low-income neighbourhoods like inner-cities. In many inner-cities one finds a preponderance of fringe banks and some mainstream banks. This is problematic for a few reasons. First, fringe and mainstream banks may be co-located in low income neighbourhoods but numbers of fringe banks are rapidly increasing while the mainstream bank branch closures often hit inner-cities. Second, direct fees for most fringe bank services are higher for comparable services at mainstream banks (Buckland and Martin, 2005). It may cost as much to cash one cheque at a cheque-casher as its costs to have a low-fee account at a bank or credit union that would allow 10-15 transactions; a
pawn loan may involve fees amounting to a 250 percent Annual Percentage Rate (APR) as compared with a typical credit card APR of 10-25 percent. Finally, most fringe bank services are not regulated – the important exception being payday lenders as a result of the amendment to the Criminal Rate of Interest – as compared to the extensive regulation faced by mainstream banks. Perhaps as importantly, mainstream banking regulation on access issues is not comprehensive: Access to Basic Banking legislation ensures that banks open accounts, accept certain personal identifications & cash government cheque at no charge but these do not guarantee that mainstream financial services are accessible or useful. These regulations do not require that banks must provide information about, and provision of useful services and staff must be trained to provide these services in a helpful manner. Fringe banks are not able to provide consumers with comprehensive information about their finances. They provide a series of financial services that are not integrated like that of a mainstream bank. Relying on fringe banks means that the consumer is not able to get assistance on financial literacy issues related to savings and credit services.

Income trends over time, social assistance policy and banking services are three important institutions or institutional consequences that affect different income groups in different ways. The financial consequences for different income groups are that they have different financial literacy needs.

4) Evidence of Financial Literacy
The results from the surveys provide evidence that many respondents in many ways had adequate financial literacy, particularly in reference to their knowledge and skills. More often than not, literacy levels were adequate given the institutional context people faced. Some respondents evidenced quite exceptional knowledge about certain aspects of their finances, particularly around expenses. Most respondents did not engage in significant savings or credit activities which are consistent with the credit constraint/life-cycle literature. Respondents also had awareness about aspects of certain government and banking policies and practices that bear on their financial well-being, although this knowledge was at times limiting. Evidence for rational decision making around household finances fell under income and spending decisions; savings and borrowing decisions; and, understanding of relevant institutional policies and practices.

a) Income & Spending
Three points surface in considering the income and spending of the respondents: involuntary simplicity, the importance of the informal economy, budgeting by tying income to spending, knowledge of prices and sets of prices, and use of coupons.

First, in regards to the low level of income, some respondents made reference to being able, or having to accept the material ‘involuntary’ simplicity that resulted from this low income. These respondents in particular had identified that the material consequences of their incomes were distinct from that of the majority of Canadians. This is not to romanticize the strictures they face but to point out that some of the respondents had come to a level of acceptance. This is achieved by limiting consumption, comparison shopping and by using coupons and points cards. In most cases people balanced their
budgets. One respondent helped to finance spending on furniture with a payday loan, but that was the exception.

Winnipeg Flh#3: After I had my kids, NOTHING was mine anymore. It was always for my kids. I don’t complain about that, I don’t have any regrets about that…it’s just that that is when my learning started. Um that’s when I started…learning about budgeting, and…you know having to stretch the dollar um as far as you could. Uh cooking meals instead of going out. Um…Like little things like that back then didn’t really mean much until I had to actually experience it. And then with experience and it was a great learning experience.

Vancouver Flh #4: I just need a certain amount of money and I don’t know…it doesn’t bother me anymore. I mean I need money, everyone needs money but I don’t…if I wanted it I would go back to accounting and make a $30,000 job …I don’t want that. I don’t like accounting. I’m burnt out. So…I feel happier doing what I’m doing. It’s less money…but it makes me so happy. I feel so good inside. That’s more important to me. Absolutely. It’s more important how I feel than it is this.

Vancouver Flh #1: You know….I haven’t got nothing…and I’m bitter, very bitter. Bitter at our society, bitter at what’s happened in the world and the whole thing. I don’t rip myself off anyway…like for instance, I would get like presents from mom or my sisters. They would send me stuff for presents, so I have like brand new stuff. So I would like go out there, and stuff and I would be like opening my presents up and going and selling it. Its like a 100 dollar present brand new…and all I want is 10 bucks. You feel like crap anyway because you’re selling it, and then the guy goes…no…I’ll give you 2 dollars for it. Because he knows that you might be desperate.

A second point came out from many respondents is their innovativeness in terms of diversifying their incomes, particularly from the informal economy. Some respondents had part-time jobs in the formal economy, e.g., cross-walk guards, couriers, translators, etc. But the majority of jobs, particularly for the poorest respondents were included in the informal economy engaging in ‘dumpster diving,’ searching for discarded items that can be sold as 2nd hand goods or collecting recyclable materials that can be sold to a recycling centre. Both of these activities were particularly popular in the Downtown Eastside of Vancouver.

Vancouver Flh#4: I’m on social assistance. I’m getting ready to come off, but I’m on it still. I do volunteer shifts at Life Skills. Reception, and I’m a librarian, and I also have a book club downtown. That’s my sources of income that I can tell you.
Vancouver Flh#12: To answer your question probably a little more directly…is I love to dumpster dive. And what I find…and of course because of my ability…I’ve been very fortunate. I’ve traveled the world, very educated and come from an affluent family…so I can tell you the difference between chintz and china, or imitation…. So I’ll come down here and see whose got what for what…and then I will go and take it to somebody to some other place because I know…I’ve developed a lot of relationships. So basically I’m a buyer and a seller.

Interviewer: That’s an awesome skill.
Respondent: Well, it’s been my livelihood.

A third issue that welled up from the research about income relates to how it is linked by some to certain expenses. We did not specifically ask respondents if they maintained a household budget and kept track of spending. However when asking about spending, several respondents explained how they tied certain types of income to certain types of spending which allowed them to keep their spending under control. An example of this is a respondent who receives two social assistance cheques each month amounting to about $250. The first cheque was used for groceries and the second cheque was used for bus pass and other items. While this is not a full household budget it is a simple and effective way to hold spending to the family’s income. A full household budget in this case may not be any more effective.

Interviewer: Now what if you --just an idea here—what if you cashed it at Money Mart & --let’s just assume there was an Extra Foods or Superstore nearby. Would it be cheaper for you to go to the Money Mart and then the Extra Foods or Superstore or Safeway as opposed to cashing it at your landlord’s? Which would be cheaper do you think?
Respondent: I think buying at my landlord’s because the meat…because the meat is cheaper. Hamburger, chicken, pork butt steak is cheaper. Sometimes they get pork butt steaks for $1.29 a pound. That’s pretty good for pork butt steak. Other places its $1.69, $2.05 some places, a pound.
Interviewer: Well it sounds like you shop around quite a bit?
Respondent: Oh ya. I raised 6 fix kids so…I had to shop around. When I did raise my kids I did go to Extra Foods. I tried Safeway and Safeway is kind of expensive so I went to Extra Foods.

Another issue related to budgeting related to knowledge of market prices. Without specifically asking respondents, many referred to their knowledge of prices and how they comparison shop in order to find the best deals. This is done for individual items, e.g., groceries and for sets or related items, e.g., groceries-banking services-transportation. May respondents discussed how they comparison shop for the single biggest item –next to housing– in their budget, groceries. Many respondents were very confident in their knowledge about grocery prices at different stores and if particular items were cheaper at a particular store. For instance, in Winnipeg’s North End, where there are no major super markets, one local store is seen to have competitive prices as compared with another.
When asked to compare the prices between a local stores and large grocery store chain respondents are often aware that many—not necessarily all—prices are cheaper at the chain store. However, when they factor in the cost of transportation then, according to their calculations the local grocery store is cheaper.

In the survey, respondents were asked what were their financial services and why do they choose that service over others. In many cases respondents use fringe or informal financial services. These respondents were asked why they chose these services over mainstream financial services which—based on comparisons of fees—are generally cheaper. Often respondents reported that the financial service fee is only one factor they consider in choosing a financial service. Other factors include indirect economic and social costs. Indirect economic costs include the cost to get to the bank during its operating hours. For instance if the mainstream bank requires a vehicle to get to then this cost is factored into the calculation. Social costs or benefits were also identified by respondents. Many respondents referred to the costs of negative experiences in working with discourteous staff. What this demonstrated was that respondents were calculating total costs they would face for different sets of goods and services. For instance, a middle-aged aboriginal male respondent [Winnipeg FLH #1] cashed social assistance cheque for free when he buys groceries at his landlord’s local grocery store. We asked him if it would be cheaper to go to a chain grocery store:

Interviewer: Now what if you --just an idea here—what if you cashed it at Money Mart & --let’s just assume there was an Extra Foods or Superstore nearby. Would it be cheaper for you to go to the Money Mart and then the Extra Foods or Superstore or Safeway as opposed to cashing it at your landlord’s? Which would be cheaper do you think?

Respondent: I think buying at my landlord’s because the meat…because the meat is cheaper. Hamburger, chicken, pork butt steak is cheaper. Sometimes they get pork butt steaks for $1.29 a pound. That’s pretty good for pork butt steak. Other places its $1.69, $2.05 some places, a pound.

A female respondent [Winnipeg FLH#3] reported she chose a similar combination of cheque-cashing and grocery purchase at a local store,

Respondent: [I shop at] [a local store]. You can go do your grocery shopping and take your check there. They’re not taking no fees off…you’re getting your budget, you’re getting your groceries done…with your budget, and when you leave there, I still have time to go do the rest of what I have to do. And then, I’m left in 50 dollars…

Interviewer: and we were talking earlier in the group meeting about the cost, the prices at [the local store] and I think was it you, or somebody else that was saying that they felt the prices were pretty good there…

Respondent: …I prefer to shop at [a local store] because um…I’m the comparison shopper. I follow the budget…I didn’t care if I had to walk like 30 blocks out of my way to save that extra three dollars, I was gonna walk those 30 blocks to save that three dollars…uh [local store], I’ve been shopping there for uh like 20 years…And…I know where everything is at
those places, the prices, and I know that if I walk into a store and if I see something I know if that price is cheaper than [local store]. So if it is, I’m going to get it there.

**Interviewer:** ok. Do you own a car?

**Respondent:** No.

Another strategy that several respondents used to control spending was to use store coupons and gift cards. Several respondents reported using various types of coupons and shopping cards to allow their income to go further. For instance one respondent [Winnipeg FLH#3] uses coupons for grocery purchase. Another respondent [Winnipeg FD#1] purchases a pharmacy gift card and then uses the card to purchase his bus tickets earning double the points.

b) Credit & Savings
Credit is needed for a variety of reasons including life-cycle, emergency and business needs. Respondents to these surveys are primarily focused on small life-cycle and emergency needs as only two of the respondents were, at the time of the interview, involved in businesses. In one of these cases the owner expressed concern about not being able to access capital for his business. The other respondent did not state this as an obstacle.

An important theory about household finances is the life-cycle theory. It finds that a person will even-out consumption over the person’s life by borrowing during periods of negative net income (income less expenses) and saving during periods of positive net income. This theory hypothesizes that typically young and old people are net borrowers while middle-aged people are net savers. Young people are net borrowers because they are in a period of their life when their income is low due to not working or working for low wages as they are advancing their education which means their expenses are, relative to their income, quite high. However, since their education is understood as an investment towards a good career, future income will be high. Thus according to the life-cycle theory, a typical young person will borrow today in order to smooth her life-time consumption. This theory has widespread acceptance in the economic literature.

However, for certain people the life-cycle theory may not completely hold as they may face a credit constraint and their life-cycle needs are more modest. The outcome for some –notably low-income, low-asset– people is that they cannot access mainstream bank credit. They are forced to rely on fringe and informal sources of credit which are relatively very expensive and since often not regulated are attached with other risks for consumers. Participants in these surveys were certainly credit constrained. Very few of the respondents, regardless of age, had access to mainstream bank credit. Most respondents rely on fringe and informal credit sources. Most common sources of credit were pawnshops and loans from family or friends. While some respondents used pawnshops fairly regularly others found them too expensive and that the risk of not being able to redeem their pawned item was too great. Using payday and sub-prime lenders

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5 One argument is that because lender’s lack information about borrowers (information asymmetry), they pursue a non-market means to allocate credit (Stiglitz & Weiss, 1981). This is done by lowering their interest rate and then rationing out the cheap credit to their best customers.
were also referred to occasionally by respondents. One respondent mentioned that a drop-in centre she was associated with provided emergency loans for things such as bus tickets. These loans are almost always small and addressing emergency situations or small life-cycle issues. Evidence from these surveys supports the theory that low-income people face a credit constraint certainly in terms of their life-cycle needs.

While rationality seems to be the rule, this research has found evidence of some irrational behaviour. This was most strongly demonstrated through heavy reliance on fringe or non-familial informal credit with associated high fees. In most cases this appeared rational because of the necessary nature of the purchase and the lack of alternatives. In a few cases respondents had alternatives but chose to borrow from fringe or informal sources. For instance, FD#3 took it out a payday loan based on a refund cheque he as expecting from a rental company of $400 but he has been unable to pay it off (has re-borrowed 2-3 times by paying fees and getting another loan) so that he is only able to service the fees. The respondent said, I “fell into a trap.” The fee is due on the 20th of each month at the payday lender. He pays the fee plus principal totalling $261 and then re-borrows principal immediately which he has done since January. The repayment and re-borrow take about 10-15 minutes. The purchase of one end table & the borrowing for another, while reborrowing made one wonder about the rationality.

Savings are also used for life-cycle, emergency and business start-up needs. Once again, since most respondents are low-income few of them are saving for business and life-cycle and emergency investments were modest. For instance one respondent (Wpg Flh#1) used retailers’ lay-away plans to purchase larger consumer items. Other informal means to save reported by respondents include,

Toronto Flh#2: I had...I use to keep my money… it would come in little orange tins…about this high, and it brilliantine called Orange Blossom, and it was hair oil for your hair. So as those tins emptied I would keep my quarters and stuff in there. In use my sock drawer.

C) Awareness of Institutional Policies and Practices
A final area where the research revealed financial literacy is respondents’ understanding of the institutional policies that affect their finances. Respondents reported knowledge about social assistance policies and bank policies such as rules about cheque-cashing and fees that demonstrated knowledge about key policies affecting their financial well-being. For instance, many respondents who received social assistance understood that there were limits on their additional income and savings. In some cases the understanding of the precise limits was inaccurate but it was not clear if this was due to poor understanding on the part of the respondent or due to inaccurate information provided by social assistance staff. For instance some respondents in Winnipeg thought that they could hold no savings without these savings reducing dollar-for-dollar their social assistance. In fact, the Employment and Income Assistance policy allows recipients to accumulate some savings, between $400 to $2,000 for a single person depending on one’s designation in the program (Manitoba Family Services and Housing, 2008). Some respondents

6 Referring to credit from someone other than family or friend at sub-prime rates.
explained that this was how the savings policy had been explained to them by Employment and Income Assistance staff.

As discussed above regarding comparing sets of fees, the research found that respondents had a fairly good idea of the relative—not necessarily absolute—costs of mainstream and fringe bank fees. Given fringe financial service fees are relatively more expensive than mainstream financial service fees one wonders if fringe bank consumers are behaving in rational, financially literate ways. However, respondents often explain their rationality: in choosing financial services respondents take into account direct and indirect monetary costs as well as social costs.

d) Foundational Challenges that Affect Attitudes
This research supports the view that most respondents most of the time make rational decisions about their finances and financial services choice. However these choices are made within an institutional and personal context. Many respondents described a level of dissatisfaction with their lives. So why don’t they move out of poverty? The results generally find that this is not due to glaring financial illiteracy but is caused by institutional and personal challenges that act as obstacles.

In a previous section some aspects of the institutional context shaping financial services faced by low-income people was described. Low or declining wage and social assistance rates, income security policies that create a ‘welfare wall,’ and two-tier banking that segments low-income people into limited banking services from fringe banks create disincentives to build one’s financial literacy. These factors create barriers that affect respondent’s sense of hope for an improved well-being.

The research also found that personal challenges such as mental health and substance abuse present another obstacle for some low-income people. Many respondents, without specifically being asked, spoke of substance abuse or mental health issues that affected their perception of the future. One-third (5/15) of the financial life history respondents made reference to personal mental health issues. Ten percent (8/83) of the survey respondents and 87 percent (13/15) of the financial life history respondents made reference to either having a personal substance abuse problem or being affected by a family member who did. While analysis of the relationship between these factors and financial literacy is beyond the scope of this analysis there is evidence that these personal challenges affected the respondents’ attitude towards change.

Conclusion
The use of qualitative data can contribute to our understanding of financial literacy. While quantitative data can provide descriptive statistics of populations, arguably qualitative data can help to understand nuanced relationships between variables. This study has relied on qualitative results from three research methods undertaken among low-income residents in three inner-cities in Canada.

The results from the research reported here find that by-and-large respondents were financially literate and made rational decisions dealing with knowledge and skills and about their family’s budget, their credit and savings plans and were reasonably knowledgeable about relevant government programs and banking services. Most
respondents had some form of budget and stuck to it. Given their limited credit and savings options most respondents engaged in limited borrowing and savings and most respondents understood at least the basic spirit of relevant government policies and the relative costs of different types of financial services. Where constraints were noted in financial literacy they related more to attitudes about finances and life goals and to detailed knowledge about institutional policies.
References Cited


