Financial Literacy as a Means to an End

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Introduction

- Thank-you for the opportunity to share with you some of my thoughts on financial literacy, in relationship to the task force’s consultation document.

- To do so I will refer to the Task Force’s document “Leveraging Excellence” (Task Force on Financial Literacy 2010) as the document in this presentation.

- In my presentation, I would like to touch on 2 points regarding how the document treats financial literacy: (1) the stakeholders, and (2) the purpose.

- With 5 minutes to speak, I direct most of my efforts to raising questions and making brief comments as opposed to providing detailed responses.

- The definition of financial literacy in the document is: “[f]inancial literacy means having the knowledge, skills and confidence to make responsible financial decisions” (p.10).

- I find the definition helpful in what it says but I identified some limitations for what it does not say:
(1) The definition is relatively silent on who the key stakeholders are, and how these actors’ financial literacies are inter-related.

(2) The definition is also silent on the purpose of financial literacy.

- I argue that we need a ‘social’ (not individual) concept of financial literacy, and broad-based dialogue is needed to understand how it is related to the ‘good life.’

(1) The stakeholders

- Before financial literacy can be improved, we must understand whose financial literacy we are talking about. The document refers to “all Canadians” as the object of financial literacy. I infer from this that it refers to individuals.\(^1\)

- But I think it is necessary to identify other principal stakeholders in the financial literacy process: e.g., government and business.\(^2\)

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\(^1\) And it uses individuals in a particular context, the consuming context, i.e., not other aspect of individuals, as citizens, as members of societies and classes.

\(^2\) Many other stakeholders are important. For instance from an anti-poverty perspective, class, gender, and ethnicity must be represented in some way.
The document does represent government (and non-government agencies) as a stakeholder, but its role seems to be a relatively passive one (to deliver, or to support the delivery of financial literacy programs).

- But government is more than a service provider and it plays a critical role in representing, and enforcing society’s interests.\(^3\)

- A question I have is, can government policy actually undermine some people’s financial literacy? For instance, might government rely too heavily on the consumer to stimulate economic growth? I think a careful examination of concept of consumer debt-led growth (Montgomerie & Williams 2009) could help to consider this question.

- Another question is, can government policy mitigate behaviour that is harmful to consumers? For instance, is the federal government seriously addressing the growth and proliferation of sub-prime credit?

- The document is relatively silent on the role of business, including financial institutions, in financial literacy.\(^4\)

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\(^3\) Various states (including the Canadian state) have had their own chequered experience with financial literacy as evidenced by the stagflation of the 1970s, the international debt crisis of the 1970s-80s, and regional debt crises since the 1980s.
I think that business’ role is critical to financial literacy and an effective definition of financial literacy should encompass its role.

A question I have is, are business and banking interests always in concert with consumer interests? Or do they sometimes conflict? For instance, are sub-prime mortgages, sub-prime credit cards, and payday loans necessarily in the consumers’ interest? One way to think about the bank-consumer relationship is via the concept of financialization (Epstein 2005, Dore 2008).

For a strategy to be effective, it must be built on a definition that includes the primary stakeholders. That is why I recommend a ‘social’ definition of financial literacy be used: one that includes government and business as important stakeholders.

The document alludes to the role of business and banking in its discussion of rationale. Under the section ‘Why Now?’ the document does provide some reasons why individuals today require greater individual financial literacy than in the past. Points raised include: People need to make many more decisions today than in the past; Decisions today are more complex; Aging of the population; Globalization; Evidence of individual financial literacy (p.11-12).
(2) The purpose

- The document does not explicitly state why individual financial literacy is important. But from the general discussion,\(^5\) I infer the Task Force sees financial literacy as a means to improve (or maintain) the individual’s well-being.

- Now I think that there is an important relationship between one’s financial literacy and one’s well-being but it is not a simple relationship.

  - There is a growing body of literature drawing on subjective evaluations of well-being that undermines the simple income-happiness relationship.

  - There is also a growing body of evidence on the relationship between economic growth and the health of our environment. Since our well-being is intimately tied with our environment’s well-being, this evidence also undermines a simple income-happiness relationship.

- For these reasons, and for a strategy to be effective, it is important that the purpose of the strategy is made clear.

\(^5\) This is most clearly presented in chapter 1 ‘The financial Literacy Landscape’ of the document (p.15) where an individual financial life cycle “life events” description is presented.
Conclusion

- I think that the work of the Task Force is important and the consultation document is a helpful starting point. What the document presents is helpful but I think it will be strengthened by identifying the key stakeholders in the financial literacy process, and explaining the purpose of financial literacy.

- I argue that we need a social—not individual—concept of financial literacy, and broad-based dialogue is needed to understand how it is related to the ‘good life.’
References Cited


