**Financial Turmoil? Financial ‘literacy’ can help — but we better get it right!**

By Gary Rabbior, President, Canadian Foundation for Economic Education

There is much talk of “financial literacy” these days – what we know, don’t know, and should know about how to handle our financial affairs. This is good news for someone like me. As President of the Canadian Foundation for Economic Education (CFEE), I have been an advocate for improved economic and financial literacy since 1978.

Sure, over the years, there have been ups and downs in terms of interest in improving economic and financial literacy – up when the economy is down and down when the economy is up. But never anything like this. Why?

Probably because we haven’t had so many people so affected since the 1930s. This has prompted interest and questions. How did this happen? Why did it happen? How can we make sure it doesn’t happen again? And assumptions are being made. Surely ignorance was a cause. Surely we can avoid this again. Surely improved financial literacy can help.

Indeed I believe financial literacy can help. But, to do so, I believe we have to keep two important things in mind.

First, we must maintain realistic expectations and be careful in how we try to achieve our goal. Transferring a whole batch of information from one group (those who know stuff) to another (those who don’t know stuff) will not change the world as we know it – not quickly anyway.

Consider an example – a “learning moment” from experience if you will. Everyone over the age of about 15 has heard you should budget. There are hundreds of resources, web sites, and resources to help you budget. But the overwhelming majority of Canadians do not work with a budget.

Why is that? That is a fundamentally crucial question. Almost everything that could possibly help a person develop a budget, work with a budget, and change a budget exists. Yet most people don’t budget. We don’t need more sample budgets. We don’t need more books on budgeting or more people to tell us to budget. We need to understand why people don’t budget. Then, if we think they should budget, and would be better off if they did, what would make people act differently in the future? Understanding why we do what we do now is really important.

The reality is – incentives influence decisions and actions. Incentives overwhelm knowledge. Therefore, if we don’t begin with a focus on why people behave the way they do – and what will make them behave differently – we could end up wasting millions of dollars on new programs, resources, information, and web sites.

Worse yet it may also mean that most Canadians won’t necessarily be better off. And they may not be less vulnerable to making decisions that can lead to financial problems - and be no more ready to improve their own well-being and that of their families. In a nutshell, knowledge alone is unlikely to be sufficient to change behaviour. Incentives are the more powerful force.

People usually act on the basis of incentives – the hope of reward or benefit – or the fear of penalty or punishment. If people know they should save for their kids’ education, why don’t they? If they know they should save for their retirement why don’t they? If they would be better off if they used credit wisely, had at least a basic budget, diversified their investments, “lived within their means,” protected their assets with insurance, read the fine print, why don’t they? And, if we think they should, how do we change that? Not with books, web sites, and providing more information. Those can be the tools for change – and much of that exists already. But they aren’t the motivators or agents of change. We need to look for those motivators. To date, we haven’t looked closely enough yet to find them – and understand them - and how to change them if they need to be changed.

Second, we have to accept the fact that, by and large, people don’t aspire to a life of debt, stress, anxiety, and disappointment. People, for the most part, want to do well. They want to make good decisions and manage their affairs to achieve
personal success. And they want to build a good life for their family.

That, to my mind, is the encouraging part. It is the good news aspect of the story. If we can get the incentives right and create a better environment to encourage and promote good decision-making, most Canadians are likely to want to get on board. As it is, though, many of the incentives often drive riskier decision-making that focuses more on spending and borrowing. I know we have a consumer-based economy – but do we want to push it to excess? Do we want to have people over-extended, in debt beyond their means? Something tells me we just went through a clear demonstration of why this isn’t sustainable. We need a successful economy – but within reason – not with excess.

If most Canadians don’t want stress, hardship, and anxiety, why do so many get into financial difficulty? Consider the drivers and incentives at work. Don’t deny and disappoint your kids. Put your kids in university – maybe college – to achieve success. Keep up with the Joneses (those old pressures are as powerful as ever). Need more credit – no problem – how much more? Want to mortgage more equity in your home – no problem. Want no payments for 12 months – no problem. Want a loan to cover you to payday – no problem. Please, please spend today to keep the economy going – oh yeah, and save for retirement too. Is your car more than three years old – here’s a whole bunch of incentives to buy or lease a new car now. Can’t pay your full credit card bill? Then pay this minimum. Buy now, pay later. Buy. Spend. Borrow. Borrow some more. And on and on it goes. Think of how many incentives, drivers, motivators work on people that push them in the direction of spending – and, in many cases, overspending.

Altogether, they can create a society of influence where a bright, caring person can find themselves in one holy mess – especially if unfortunate shocks happen along the way – ones that were not foreseen but should have been considered.

Compounding all this is a peculiar reality. Over time, as a society, and without anyone really making a conscious decision, I believe, we are transferring more responsibility to Canadians. We are transferring more responsibility for decision-making and financial well-being. That applies to planning for retirement, paying for kids’ education, managing debt, and so on. No more defined benefits. In many cases, no more company pensions. More reliance on RRSPs. Higher and higher post-secondary costs. Easier and easier access to credit – home equity loans and lines of credit, higher credit card limits, reverse mortgages. I don’t recall a collective societal decision being made that we would put more decisions and responsibilities on individual Canadians. But we have. And yet, at the same time, we still don’t provide basic economic and financial knowledge and skills in our education systems. If we did, we could create a motivated and capable lifelong learner who would be better prepared for such responsibilities – and better able to self-educate as an adult with the information, resources, and tools available.

Why don’t we? I have no idea. Nor do most Canadians.

Happily we are starting to address this problem. CFEE and the Manitoba Department of Education, Citizenship and Youth have agreed to work together over the next two and a half years on “The Building Futures Project” to integrate a basic economic and financial education into the compulsory core K–12 curriculum in Manitoba. Fifty new learning modules will be integrated into a range of compulsory courses over the K–12 learning years. The modules will be participatory, cross-curricular, and life-relevant and will be accompanied by resources and teacher training. It will be a model program that hopefully other provinces will adopt or adapt. So maybe – just maybe – our schools will begin to effectively prepare our youth for their economic and financial lives and responsibilities.

The federal government has also established a Task Force on Financial Literacy that will report back to the Finance Minister in December 2010. As noted, I am very happy that economic and financial literacy is getting the attention it deserves. This Task Force can make a difference. I hope they will. What would I suggest if asked? I would suggest to them the following:

- Clearly acknowledge that the challenge extends beyond getting “information” to Canadians. Knowledge will be insufficient. We need to aim for, and affect, behavioural change. Learn more about the incentives at work. Change them if they need to be changed. Create new ones.
- At the same time, transferring knowledge and understanding needs to be just that. “Disclosure” can’t be mailing out a document. Fine print on a credit card statement won’t be read. Most Canadians don’t understand insurance policies. I could go on.
• Assign the highest importance to starting young. The older you are, the more entrenched are behaviours – and the harder it is to change. Look at seat belts. Most children today won’t ride in a car without their seat belt on. Few of my generation wore them. Now the kids force parents to wear their belts. I now wear mine all the time. They, more than laws, changed me. New modified behaviour in one generation! And children are helping adults change entrenched ways.

• The most essential element for future success will be to ensure help is provided by “trusted” sources. Trust is key and vital to Canadians becoming engaged in efforts to improve their economic and financial capability. They don’t want to be sold anything. They just want effective help and advice.

• The federal government should exploit the many ways it connects with and reaches Canadians. Use these opportunities to help improve economic and financial literacy/capability – through RRSPs, RESPs, CPP, EI, Student Loans, Canada Savings Bonds, CRA and taxes, immigration offices, etc. The government connects with Canadians in many ways and can create new incentives.

• Consider using the term “Financial Capability” rather than “Financial Literacy.” Literacy tends to be associated with knowledge and tends to denote cognitive development. We need to address skills, behaviour, and attitudes in addition to knowledge. “Capability” captures the broader challenge we face. But terminology is the least of our concerns.

• Recognize that quick hits don’t work. There is little retention, assimilation, and application of knowledge and skills via the one course, one workshop, the one learning opportunity route. The acquisition of effective and relevant knowledge, skills, and attitudes is a long-term, lifelong investment. Research shows that those who take a single course in money, finance, or economics in school perform no better when tested for financial literacy. It is an on-going, lifelong investment and challenge – not a quick fix.

• Most Canadians will not voluntarily self-educate and pursue economic and financial capability without motive. But many motives exist and can be exploited. It is key to tap the “learning moments in life” as events unfold and that provide motivation for learning. Interest, engagement, and learning opportunities peak when one graduates, gets married, gets a job, loses a job, nears retirement, experiences a death in the family, pays off a mortgage, gets an inheritance, and so on. We need to capture these “learning moments” of interest and exploit interest for learning and skill development. In addition, the old adage that people learn best by “doing” is very true. Active, participatory, life-relevant learning is essential.

• A basic economic education is as important as a basic financial education. We can teach a person what a mortgage is and how to get one. But, if they don’t have a basic economic understanding to have a sense of where house prices and interest rates are likely headed, they can make huge miscalculations. That can cost them tens of thousands of dollars. Just consider some of the important learning that will be missed if we concentrate only on financial education: career and education planning; enterprising skills and the option of self-employment; how the labour market works and how to integrate effectively – find a job and keep it; why and how prices change – and knowing when to buy; why interest rates change and how they can affect many of your financial decisions; the issue of government debt and deficits (a prominent national issue for discussion and debate); taxes – why we have them, ones we pay, how to pay your share and no more; and much more. If financial education provides the tools for building a successful future an economic education provides the insight into how to build that future – how to make good decisions – and achieve success. The two go hand in hand.

• A key challenge we face is to build confidence in Canadians so that, equipped with reasonable competence, they will be willing and able to ask questions before making key decisions. Asking questions – especially the right and relevant ones – can avoid mistakes and reap significant benefits. Ignorance breeds passivity and vulnerability. Understanding and capability breed confidence and a capacity for self-protection and better decision-making.

• Perhaps the most important concept we can focus upon is an understanding of “trade-offs” and “opportunity cost.” We can’t have it all – in spite of what some may think. Every time we make a decision for one thing – what to buy, where to go on a trip, whether to take a job, which program at college or university to take…. – we give up the next best alternative we could have had. The consequence of more Canadians simply pausing to consider this fact before making decisions could be dramatic.

In closing, the Task Force represents an extraordinary opportunity to set in motion a strategy for change – and efforts to improve the economic and financial capability of Canadians. We should all wish them well in their endeavour. The future lives of a great many Canadians may well be affected as a consequence of their work.