Understanding financial wellbeing in times of insecurity

Working paper

Dina Bowman
Marcus Banks
Geraldine Fela
Roslyn Russell
Ashton de Silva

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Brotherhood of St Laurence
Working for an Australia free of poverty

RMIT UNIVERSITY

The Brotherhood of St Laurence is a non-government, community-based organisation concerned with social justice. Based in Melbourne, but with programs and services throughout Australia, the Brotherhood is working for a better deal for disadvantaged people. It undertakes research, service development and delivery, and advocacy, with the objective of addressing unmet needs and translating learning into new policies, programs and practices for implementation by government and others. For more information visit www.bsl.org.au.

Dina Bowman is a Principal Research Fellow, Marcus Banks is a Senior Research Fellow, and Geraldine Fela is a Research Assistant in the Work and Economic Security team in the Brotherhood's Research and Policy Centre.

Roslyn Russell is a Professor and Ashton de Silva is an Associate Professor in the School of Economics, Finance and Marketing at RMIT University.

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67 Brunswick Street
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Australia

ABN 24 603 467 024

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Overview

This paper provides a basis for a broader understanding of the factors that shape financial wellbeing and the capacity of individuals to experience economic security.

In Australia inequality is increasing, wage growth has stagnated, underemployment rates are high and rising, housing is increasingly expensive and there is a growing sense of insecurity.

With the erosion of the welfare state, individual decision-making and responsibility for financing education, housing, caring, health and retirement are replacing collective provisioning and risk pooling. Furthermore, the risks associated with financial crises are increasingly borne by individuals and households.

The growing influence of economics, especially behavioural economics, in social policy is also reinforcing the importance of individual choice and responsibility. At the same time, there has been mounting popular interest in individual subjective wellbeing.

In this context, financial wellbeing as a concept has become popular in the overlapping fields of social policy, service delivery and personal financial products. Agencies such as the Consumer Financial Protection Bureau in the United States, the Financial Conduct Authority in the United Kingdom and Financial Literacy Australia are all engaged in developing financial wellbeing concepts for integration into their business planning frameworks (CFPB 2015a, 2015b; FCA 2016; FLA 2016).

There have been several attempts to recognise the multidimensional nature of financial decisions and economic security. These important first steps pave the way for further research that examines not only why people make the choices they do, but also the personal, systemic and structural factors that constrain or enable opportunities.

In this paper, we trace the shifts in focus from financial exclusion through inclusion, literacy and capability to resilience and wellbeing.

In a period of increasing economic insecurity, policies designed to improve personal financial wellbeing should be very welcome. As a component of overall wellbeing, financial wellbeing has the potential to contribute to a fuller understanding of economic security and social cohesion. Current attempts to aggregate social and economic factors, particular policies (financial inclusion and literacy) and individual behaviours, attitudes and skills into one construct are, however, theoretically and methodologically underdeveloped. We argue that the concepts underlying the design of financial wellbeing policies, programs and practices require more careful consideration if this potential is to be realised.

At stake is whether financial wellbeing policies, programs and practices will actually improve financial wellbeing, will have no effect or will have the unintended consequence of entrenching inequality and poverty.

As a work in progress, financial wellbeing faces difficult conceptual challenges. We argue that relying on methodologies primarily centred on the individual distorts a framework that also seeks to incorporate other domains. Rather, financial wellbeing policy design should start with concepts that centre on the social as its primary unit of analysis.

Amartya Sen's capability approach has been influential in social policy and has contributed to various attempts at defining and measuring subjective wellbeing to assess progress beyond the narrowly defined gross domestic product (GDP).

As an evaluative tool, Sen's capability approach can be usefully deployed in meeting these challenges, but alone this will not be sufficient. Explanatory theories are also required to make sense of the processes that underpin poverty and inequality.

Further research and debate are urgently needed to define the relationships between the social and individual factors included in financial wellbeing constructs, and their relative significance in determining financial wellbeing, before effective financial wellbeing policy can be designed, implemented and evaluated.

1 Introduction

Financial wellbeing is an increasingly popular concept in social welfare and financial literacy discussions and reports, but so far it is ill defined. This paper considers the development of the concept and its relevance in a time of insecurity and increasing inequality.

Growth in inequality and sense of insecurity

Many people in Australia are doing it tough financially. Wage growth has stagnated, unemployment remains at 5.7% and underemployment is increasing, with a growing number of part-time rather than full-time jobs (ABS 2017; RBA 2017). Household debt has increased (Phillips & Taylor 2015) and an increasing proportion of people are locked out of home ownership (Hall & Thomas 2016).

Overall income inequality in Australia has grown since the mid 1990s (ABS 2015; Fletcher & Guttmann 2013; OECD 2015; Senate Community Affairs Reference Committee 2014). Australia's poverty rate of 13% is above the OECD average of 11% (OECD 2016b). In 2014, 2.99 million Australians lived in poverty, and over half (57.3%) of these people relied on social security as their main form of income (ACOSS & SPRC UNSW 2016).

In 2017, Newstart Allowance for a single person with no children is just $528.70 per fortnight (Centrelink 2017). This compares with the poverty line for a single person without children of $1053.54 (including housing) or $709.02 (other than housing) as at June quarter 2016 (Melbourne Institute of Applied Economic and Social Research 2016). Nevertheless, in February 2017, the Social Services Legislation Amendment (Omnibus Savings and Child Care Reform) Bill 2017 included proposals to cut income support.

An increasing focus on wellbeing

In the context of increasing inequality and poverty, there has been renewed interest in wellbeing in popular media and social policy. This is not surprising as people try to manage increasing stress and understand the impact of social and economic change.

Internationally, the *Report of the Commission on the Measurement of Economic Performance and Social Progress* (Stiglitz, Sen & Fitoussi 2009, p. 216) defined subjective wellbeing in terms of 'cognitive evaluations of one's life, positive emotions (joy, pride), and negative ones (pain, anger, worry)'. The authors argued that subjective wellbeing was determined by factors other than just income and material conditions, and recommended that subjective wellbeing data be collected to assess social and economic progress and complement narrow measures of progress such as GDP. This recommendation led to the development of the OECD Better Life Initiative (OECD 2017), which identifies progress in 11 domains of life that contribute to wellbeing: housing, income, jobs, community, education, environment, civic engagement, health, life satisfaction, safety and work–life balance. The Better Life Index enables a comparison of progress in these domains across OECD countries.

The interest in measuring wellbeing led to the development of other national wellbeing indices. For example, the Canadian Index of Wellbeing (CIW), launched in 2011, is similar to the BLI and measures progress in eight domains: community vitality, democratic engagement, education, environment, healthy populations, leisure and culture, living standards and time use. Also in 2011, the UK Government developed a Measuring National Wellbeing program (Allin & Hand 2017, p. 7) which measures progress in 10 domains of wellbeing across three layers:

- subjective wellbeing (people's assessment of their own wellbeing)
- factors directly affecting individual wellbeing: health, our relationships, 'what we do' and 'where we live', personal finance, education and skills
- contextual domains: governance, economy and the natural environment.

Here personal wellbeing is defined as: 'people's subjective assessment of their wellbeing. It ranges from how worthwhile or satisfied we rate our lives, our happiness, feelings of anxiety and mental wellbeing' (UK Government 2016).

The notion of wellbeing broadens the understanding and measurement of progress beyond narrow productivity measures. However, an undue focus on subjective wellbeing risks diverting attention from issues of access, adequacy, affordability and equity. As Sointu (2005, p. 256) puts it:

> the wellbeing of a citizen in a traditional nation state – produced and conceptualised through institutionalised strategies of national governance – has been eclipsed by an increasing emphasis on wellbeing that is actively produced by the choosing consumer.

She argues that the recent emphasis on subjective wellbeing reflects the broader shift of responsibility and risk onto individuals that has occurred since the 1980s.

Introduction continued

Within this broader interest in wellbeing, financial wellbeing has emerged as an ill-defined but increasingly popular concept in social policy, banking and personal finance, and the community sector. There is lack of agreement about what it means or how it should be measured. Most definitions tend to highlight a sense of control—having adequate resources and know-how, and the capacity to make choices and absorb financial shocks now and in the future—while recognising that external factors also have an impact on financial wellbeing.

Kempson (2016) suggests that financial wellbeing is characterised by 'the capacity to meet current commitments, with money left over and the resilience to ensure that [they] can continue to do so in the future'. She recognises that it 'is not only determined by behaviours of individuals but also a range of environmental factors beyond their control'. Kempson conceives of these social and environmental factors as affecting people's attitudes, motivations and biases and behaviours, which in turn impact on their personal financial wellbeing (see Figure 1).

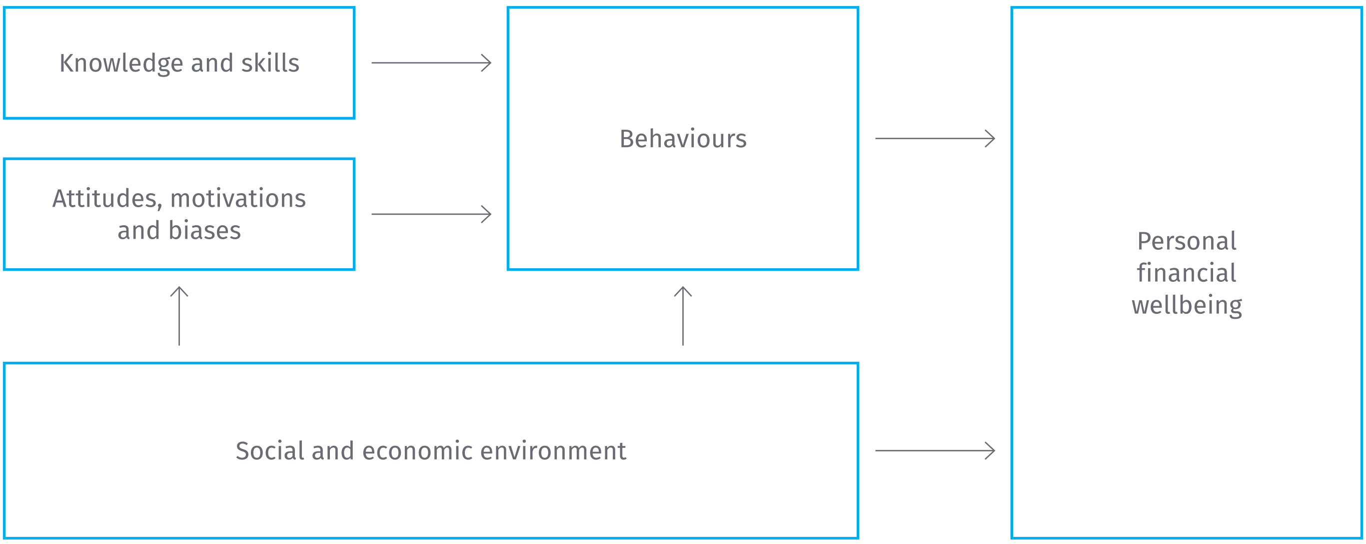
In a similar way, the Consumer Financial Protection Bureau in the United States understands financial wellbeing as influenced by the social and economic environment, personality and attitudes, the context in which decisions are made, and knowledge and skills (CFPB 2015a, 2015b). In Australia, the Bureau of Statistics understands the components of 'economic wellbeing' as resources (income and wealth) and consumption (basic needs and discretionary expenditure) (ABS 2013).[1]

In spite of this recognition of the diverse determinants of financial wellbeing, the products and programs delivered within this field tend to focus on the skills or capabilities to manage financially and be financially resilient. Financial wellbeing programs for employees are becoming more prevalent (see Barclays 2014, for example); here financial wellbeing is conceived of as the opposite of financial distress and the focus is on money management skill development.

As one component of overall wellbeing, the concept of financial wellbeing has the potential to contribute to a broader understanding of economic security and social cohesion. However, there is also a risk that a narrow understanding of financial wellbeing could focus solely on individuals and divert attention from systemic and structural issues. This paper examines the emergence of the concept and briefly reviews attempts to develop multidimensional understandings of financial wellbeing. It highlights the importance not only of the domains that affect financial wellbeing, but also of the processes, systems and structures that enable or constrain it.

Figure 1

The determinants of financial wellbeing



Source: Kempson 2016

1 Unfortunately the ABS series Measures of Australia's Progress, commenced in 2002, ceased in June 2014 due to budget cuts.

2 Financial wellbeing in economics, psychology and social policy

Current concepts of financial wellbeing draw on insights from economics—especially behavioural economics. How the relationship between finances and wellbeing has been understood and analysed by economists reflects broader trends in their discipline. Below we consider the influence of these ideas on social policy and programs.

The term 'economic wellbeing' was used by economists to discuss finances and welfare following the great depression of the 1930s (Zimmermann 1934). However, in the latter half of last century, the rise of neoclassical economics progressively transformed the discipline into 'an almost brand-new scientific body totally detached from its historical and social setting' (Fine & Milonakis 2011). The economy was considered simply as market relations. This meant that the relationship between economic resources and wellbeing was increasingly analysed in terms of highly quantifiable factors and outcomes. In the 1960s and 1970s economic wellbeing was largely defined in terms of concrete, mathematical measures of income and expenditure (Juster 1977; Morgan 1968; Smith & Morgan 1970). For example, in 1974 the University of Michigan hosted a conference on the Distribution of Economic Wellbeing; the conference papers emphasised income measures of wellbeing and mathematical modelling (Juster 1977). Even where social factors such as family background were discussed, attempts were made to quantify these and place them into equations and/or models (Hill & Stafford 1977). Some debates did occur around how economic wellbeing ought to be measured, though indicators such as net worth and income monopolised even these debates (Moon & Smolensky 1977).

While some strands of economic thought have a long history of borrowing from other disciplines (for example, see von Mises ([1940] 1998), Fine and Milonakis (2009) argue that there was a *second* movement (accelerating from the 1980s) to subsume social and life sciences such as psychology, neuroscience and biology into mainstream economics. Based on orthodox economic assumptions of methodological individualism—a focus on the individual as the unit of analysis—and supply and demand, the social sphere (now treated as market relations) was increasing analysed by applying quantitative techniques to assess states of equilibrium, rationality, scarcity and choice (Fine & Milonakis 2009). This rapid expansion in the discipline boundaries of mainstream economics was reflected in a broadening of how 'economic wellbeing' was investigated and understood. An important feature of this 'more diverse economics' (Davis & Rahman 2006) was a growing emphasis on behaviour and psychology.

In a parallel development, debates within psychology were transforming the way in which the relationship between income and 'subjective wellbeing' was understood (Diener & Biswas-Diener 2002; Diener et al. 1993; Easterlin et al. 2011). These debates came to prominence in 1974 with what has since been named 'the Easterlin paradox'. Richard Easterlin analysed 30 surveys conducted between 1946 and 1970 and found a significant difference in happiness between the richest and poorest in a single country; however, richer countries were not necessarily happier than poorer countries. That is, as a country's wealth increases, happiness does not increase. As Easterlin explained:

> Those at the bottom of the income distribution tend to feel less well off than those at the top. Over time, however, as economic conditions advance so too does the social norm … As a result, the positive correlation between income and happiness that shows up in within country comparisons appears only weakly, if at all, in comparisons among societies in time and space (Easterlin 1974, p. 119).

Easterlin's findings opened up alternative understandings of wellbeing and social progress that positioned income and wealth as just one component that impacts on happiness. Lengthy discussion occurred around what constitutes 'subjective wellbeing', a phrase first used by Warner Wilson in 1967 to describe and understand happiness (Diener & Biswas-Diener 2002; Diener et al. 1993; Diener et al. 1999; Hagerty & Veenhoven 2003; Plagnol 2011) and how subjective wellbeing should be measured (D'Acci 2010; Greve 2016). Diener et al. (1999) argued that this growing interest in the notion of subjective wellbeing reflected a broader social and disciplinary change:

> Growth in the field of SWB [subjective wellbeing] reflects larger societal trends concerning the value of the individual, the importance of subjective views in evaluating life, and the recognition that wellbeing necessarily includes positive elements that transcend economic prosperity. The scientific study of subjective wellbeing developed in part as a reaction to the overwhelming emphasis in psychology on negative states (p. 276).

The focus on individual wellbeing in psychology and economics coincided with a broader political and ideological shift in social and macroeconomic policies. From the late 1970s there was movement away from the Keynesian welfare policies of the postwar period and a growing emphasis on individual responsibility and the capacity of the market to solve social problems. As Fine and Milonakis (2011) put it, this shift:

> signifies a return to the pre-Keynes era, the virtual world of the economist's imagination, inhabited by perfectly rational and egotistic human beings, forming rational expectations about the future and exchanging their products in perfectly competitive markets, a virtual world marred only by random shocks and, of course, far-from-random government (p. 15).

Financial wellbeing in economics, psychology and social policy continued

Of course, this shift in focus within economics was not universal. Even if it was dominated by methodological individualism, as a discipline economics expanded its scope to include the behavioural and social drivers of decision-making, market activities and other aspects of daily life.

Broader understandings of utility – Sen's capability approach

The capability approach of Nobel Prize–winning philosopher and economist Amartya Sen has influenced multidimensional approaches to understanding social and economic progress. Working within development and welfare economics, Sen's major contribution was to move beyond the economic notion of 'utility and primary goods' (Sen 1979, p. 220) by 'shifting attention from goods to what goods do to human beings' (Brennan, McGregor & Buckland 2011, p. 218).

Utility is based on individuals using information to make rational decisions to maximise benefit or satisfaction. Sen distinguished between resources, functionings (being or doing) and capabilities (what an individual values and can actually be or do) (see Figure 2).

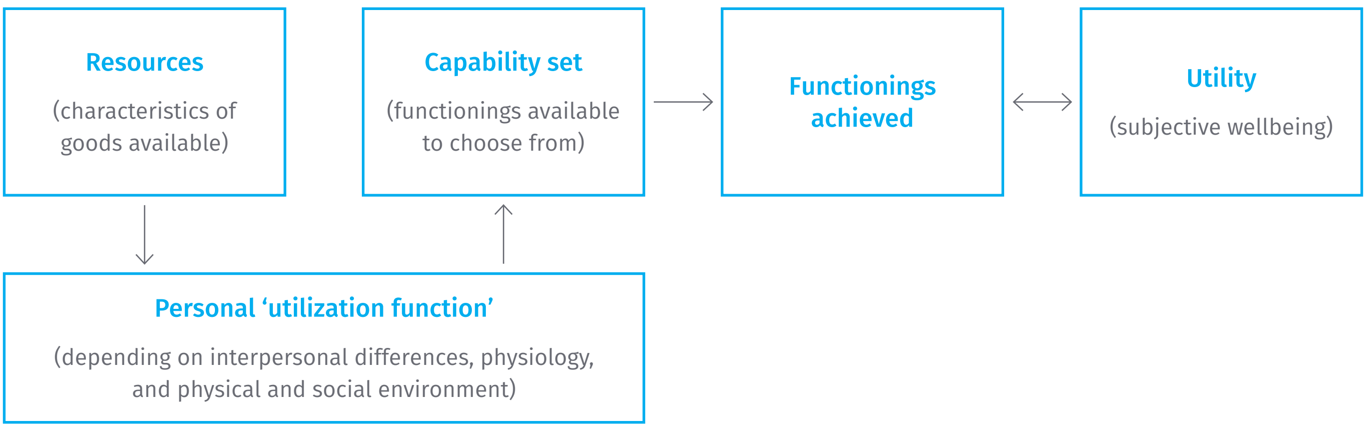
Importantly, while Sen did not define capabilities[2], domains such as health, education and personal safety can be recognised within the capabilities approach. In this way, the capabilities approach has enabled an assessment of progress in different domains of life, and influenced the development of the measures of wellbeing or exclusion (see, for example, Scutella, Wilkins & Kostenko 2009).

The capabilities approach has been influential in a wide variety of public policy fields, ranging from macroeconomic and financial literacy strategies to Indigenous policy (Allen Consulting Group 2012; Gorecki & Kelly 2012; Klein 2016). For example, in 2012, the Australian Treasury defined wellbeing in capability terms, 'primarily reflecting a person's substantive freedom to lead a life they have reason to value' (Gorecki & Kelly 2012, p. 29).[3] But its influence is tempered by its interpretation.

Some scholars have argued that the popularity of the capability framework in social policy was due to its focus on agency and individual choice. For example, Dean (2009) describes the capability approach as 'in essence a restatement' of the liberal ideal 'that obscures fundamental biological and structural constraints on freedom' (p. 271). Bowman (2010) observes that even though it is important to recognise non-material harms of poverty and inequality, the capability approach can minimise the importance of material and economic factors, and 'therefore fail to address structural inequalities' (p. 5). Furthermore, she notes that while the framework can be useful as an evaluative tool, other theoretical approaches are needed to fully understand and respond to the processes and experiences of inequality.

Figure 2

Sen's capability approach



Source: Wells n.d.

2 Martha Nussbaum and others have attempted to define key capability sets. See https://plato.stanford.edu/entries/capability-approach/ for a discussion of the issues.

3 However, in September 2016 Treasury abandoned its wellbeing framework. See The Australian 22 September 2016. http://www.theaustralian.com.au/national-affairs/treasury/treasury-department-to-get-back-to-basics-under-john-fraser/news-story/852e47a30515a74d90d7ef49cbd52da9

3 Financial wellbeing: protest, policy, practice and products

Financial wellbeing has emerged with slightly different meanings and use in social policy, banking and personal finance and the community sector. However, these meanings have increasingly converged, reflecting the overlapping nature of these interests. An historical perspective is valuable as it can identify the genesis of the concepts and why meanings have converged. Here we consider how the concept of financial wellbeing has changed over time and how this reflects broader social, political and economic change.

Financial counselling – a social movement?

There is a long tradition of combining service provision with community advocacy in Australia. One important example of this approach is financial counselling, which cut across the grain of the broader economic and political transformations of the 1970s and 1980s.

In the 1980s financial counsellors began 'recognising the role that unfair markets played in perpetuating disadvantage' (Financial Counselling Australia 2012). In Australia their activity evolved into what financial counsellors call 'a movement': a formal national network of financial counsellors was established in 1982. These counsellors were concerned about the growing emphasis in economic and social policy on markets and individual choice and responsibility (Tennant 2015). They were committed to working 'with and for their clients, listening and suggesting rather than telling' (Financial Counselling Australia 2012). Rather than simply suggesting that their client 'stop smoking, take the children's pet to the RSPCA, get rid of the rented TV and spend the day preparing cheap nutritious meals for the family', financial counsellors looked 'beyond the individuals to the society in which debt was so dramatically increasing' (Power 2003, p. 44).

During that period, financial counsellors in Australia combined frontline services with advocacy and campaign work. Here they differed from their counterparts in the United Kingdom, where services were focused less on lobbying and more on providing information. No large-scale financial counselling movement evolved in the United States, but Australian financial counsellors organised grassroots action groups that challenged the legality of unscrupulous lending practices both through lobbying and direct activism (Tennant 2015).

This early movement spawned the consumer advocacy which continues today (through organisations like the Consumer Action Law Centre[4]). But the earlier grassroots activism faded: an increasing focus on individual support and lobbying 'from above' broadly reflected the dynamics of other social movements in decline in the 1990s. The retreat of the 'social justice from below' approach in financial counselling opened space for alternative approaches, such as a growing focus on access and skills rather than rights.

Financial exclusion and inclusion

Concepts of financial exclusion and inclusion developed in the 1990s. Geographers Leyshon and Thrift (1995) coined the term financial exclusion for 'those processes that prevent poor and disadvantaged social groups from gaining access to the financial system' (p. 312). They were motivated to foster an 'alternative agenda' of financial citizenship to resist the exclusionary effects of changes in financial markets. The right to access basic savings and credit services and products was widely campaigned for by welfare organisations and consumer advocates, and has become accepted in principle by policymakers in most countries.

In this way financial inclusion came to be reduced to having access to three products: a basic bank account, affordable credit and appropriate insurance (Connolly 2014). Several crucial contradictions remained in this narrowed understanding of inclusion (and exclusion). First, it was assumed that being a full participant in the financial system required access to all these products. Yet it is well documented that the risks posed by access to a credit card, for example, are typically far higher for low-income households than the risks from lack of access to them (Mann 2007). Nevertheless, the most authoritative survey of financial exclusion in Australia uses ownership of a credit card as a measure of financial inclusion (Connolly 2014).

A second and more significant contradiction is raised by Marron (2013) who asks, 'If the point is to "include", what are the excluded to be included within?' Marron argues financial inclusion does not in practice mean:

> a welcoming embrace within mainstream markets; rather inclusion has involved a segmented, ongoing governance of a particular type of person who is poor … The key point is that the aim of governing subjects in this way has been to encourage them to adapt to and situationally manage their economically insecure position. So, just as the excluded are never really excluded from the market, neither are they really to be included. (p. 805)

4 See http://consumeraction.org.au/

Financial wellbeing: protest, policy, practice and products continued

Since the 1980s, access to credit by ever larger proportions of the population in developed countries has resulted in a 'democratisation of debt' (Erturk et al. 2007). Middle and low-income households have been integrated into financial markets through consumer credit and home mortgages. Financial products are now deeply embedded in the mechanisms that protect against the uncertainties of life, such as capital-funded pension plans, credit or investments (Martin 2002; van der Zwan 2014). This process is often referred to as financialisation, which has had profound implications for the relationship between individuals, the state and markets. Scholars have noted how finance is 'grounded in practices of everyday life' (van der Zwan 2014). Montgomorie and Tepe-Belfrage (2016, p. 1) have argued that the everyday lives of individuals and households are in turn intimately connected to global financial markets, as they explain:

> These are the limits of financialisation because if debts are not 'cared for' they are non-performing. And, non-performing loans – as it turns out – cause catastrophic failures in financialised global markets. This alone makes understanding the household economy relevant to why neoliberalism is failing.

Failure has broad economic impacts, yet households and individuals bear the consequences of these risks, as was seen in the crisis precipitated by high default rates in the US subprime home mortgage sector. With the erosion of the welfare state, individual decision-making and responsibility for financing education, retirement, housing, caring and health have replaced collective provisioning and risk pooling (Soederberg 2014).

Skills and responsibility

Since the 1980s, personal responsibility and individual behaviour have been increasingly incorporated in considerations of financial wellbeing. This foreshadows what Chandler and Reid (2016) call 'the discourse of resilience'. They refer to the 'neoliberal' approach, ubiquitous in contemporary social policy, that constructs individuals as having no other option than to learn how to adapt to insecurity and uncertainty.

This approach is reflected in the emergence of the term 'financial satisfaction' in social policy literature in the 1980s. While definitions of financial satisfaction vary, it is generally measured using both objective and subjective indicators. For example, Davis and Helmick (1985) argue that:

> Financial satisfaction depends upon (a) the quantity and quality of *resources* available to the household, (b) the nature and extent of the *demands* placed upon these resources, and (c) the *management skills* which family members possess. In other words, the output (satisfaction or dissatisfaction) depends on the inputs (resources and demands) and the quality of the throughput (the management process) (p. 124).

What is significant here is the inclusion of the idea of management (skills and process) and the increasing interest in the skills, behaviours and practices of individuals and households rather than how structural factors influence and shape success or failure (Dean 2009; Williamson 1990).

Over the past 30 years, financial literacy education has become a popular initiative supported by banks, insurance companies, financial regulators, consumer bodies and third sector organisations. As the responsibility to manage financial risk has shifted to individuals, financial literacy education has become what Arthur calls 'a public pedagogy' (Arthur 2012).

The OECD explained the aim of financial literacy education as providing the opportunity for:

> Financial consumers/investors [to] improve their understanding of financial products and concepts and, through information, instruction and/or advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial wellbeing (OECD 2005, p. 26)

The OECD (2006) argued that greater financial literacy would enhance a consumer's capacities to 'weigh the risks and make responsible choices in an ever more sophisticated financial market' (p. 2). In the wake of the financial crisis in 2007–08 a number of countries made financial literacy education programs mandatory in school curriculums.

Accompanying the increased global policy attention on financial literacy was the push to measure and quantify it. A set of competencies was developed to assist OECD member governments' interventions aimed at changing and improving consumer behaviours to cope with economic restructuring, illness or unemployment, to save for formal education, and to plan adequately for retirement. The United States has led this charge, particularly through the survey instruments designed by Lusardi and Mitchell (2011). Their eight-nation survey of levels of financial knowledge asked three questions:

> Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, less than $102?
>
> Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?
>
> Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

Analysis of the results found 'widespread' financial illiteracy across all countries, with women and those on low incomes showing especially low rates of financial knowledge (Lusardi & Mitchell 2011, p. 503). More than 30 countries (though not Australia) have since used this 'toolkit' to collect data on financial literacy to inform financial education policies (OECD 2016a).

Heavily influenced by the OECD's evaluations of financial literacy and the growth of financialisation has been a veritable explosion of education programs aimed at improving an individual's financial knowledge and behaviour (ASIC 2011; Atkinson & Messy 2012; Hastings, Madrian & Skimmyhorn 2012). Delivered by a range of financial institutions, community groups, schools and state agencies, most financial literacy programs are designed to be gender-blind, despite major studies consistently reporting gender and income differences in financial knowledge (Lusardi & Mitchell 2011; Atkinson & Messy 2012).

The assumptions informing financial literacy education are profoundly contradictory. On one hand, these programs aim to improve a consumer's financial welfare. On the other hand, narrow measures of financial literacy reproduce at a program level a range of inequality effects. Arthur (2012, p.xii) points out that, by focusing on individuals as consumers, financial literacy programs:

> become a technology that mystifies and supports the very problems that financial literacy education ought to help citizens overcome: exploitation, economic crises, insecurity, alienation and the further disempowerment of citizens.

In a similar way, Clarke (2015) characterises financial literacy policies as an 'empty promise' because:

> Put simply, the promise is that state-endorsed financial literacy education programmes can bridge the colossal gap between the average citizen's level of understanding and capability on the one hand, and the advanced technical and specialist skills that would be required to successfully and autonomously negotiate contemporary financial market transactions, products, and innovations, on the other. This is an 'empty' promise because significant critical studies have found that to imagine that this gap is bridgeable through mass FLE is at best utopian and at worst potentially dangerous (p. 258).

For low-income households financially coping week to week, perhaps on inadequate welfare payments or a volatile income, a saving habit and debt avoidance may be beyond what is possible. As Arthur (2012) observes, the concept and application of financial literacy may help us break 'the shackles of ignorance' but it risks leaving 'more substantive chains in place' (p. 2).

In the last few years financial literacy education programs in some countries have begun to move away from the standardising logic promoted by the OECD. There have been some steps to recognise that individuals have different financial practices, identities and attitudes. In Australia, for example, at least one major financial institution has invested in specific training for financial planners and educators to acknowledge and incorporate the qualities, strengths and unique needs of women in planning financial strategies.

Financial Literacy Australia (FLA), a major funder of financial education programs, has not supported all of the OECD measures of financial literacy. The programs funded by FLA are focused on providing resources and tools that will enable participants to achieve their own financial goals whatever they may be, rather than a standard set of targets. Programs like Saver Plus and MoneyMinded include opportunities for participants to come together for financial education workshops, and since these are mostly women on low incomes, the content and delivery are tailored to their social and financial situations (Russell, Stewart & Cull 2015; Russell et al. 2016).

Financial wellbeing: protest, policy, practice and products continued

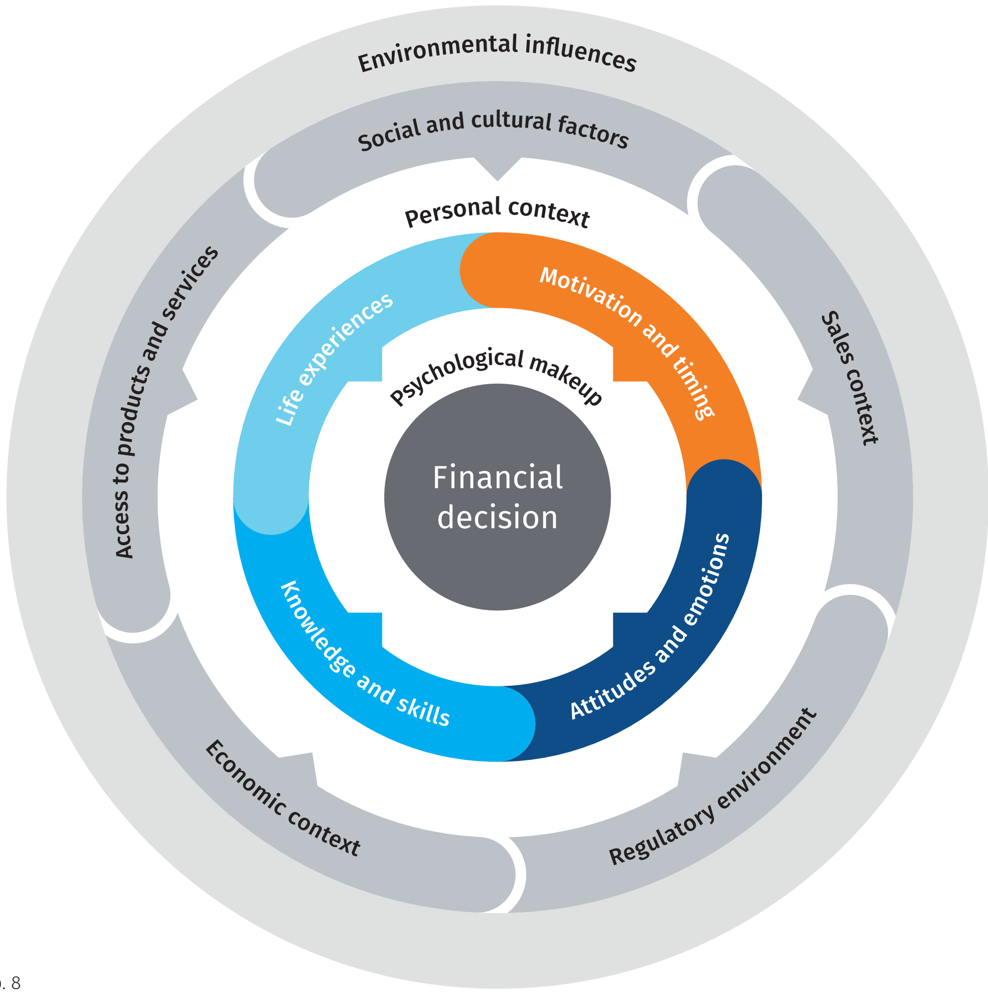
Australia's National Financial Literacy Strategy (2014–17) conceives of financial literacy as contributing to financial wellbeing along with consumer protection, fair and efficient markets and financial inclusion (ASIC 2014). Importantly, the strategy recognises the interplay of personal and contextual factors. Drawing on research evidence, it states that the way people approach financial decisions varies widely and is influenced by a range of shifting and sometimes conflicting factors including:

- personal knowledge and skill
- life stage and past experiences
- emotional impulses and cognitive biases
- psychological, social and cultural factors
- the 'framing' of information (the context or way it is presented), and
- other external environmental factors (ASIC 2014, p. 8).

Nevertheless, financial wellbeing is framed in terms of individual financial decision-making (see Figure 3).

Figure 3

Influences on financial decision making



Source: ASIC 2014, p. 8

Financial capability and wellbeing

The concept of financial capability builds on financial literacy and involves four domains: managing money, planning ahead, choosing products and staying informed (Atkinson et al. 2007). That is, financial capability provides a slightly wider lens than financial literacy education by adding some extra factors to financial knowledge. In this sense financial capability can be more accurately viewed as increasing financial capacity—adding to financial literacy the extra resources an individual requires for financial wellbeing.

Capacity building policy frameworks express similar tensions to those of financial literacy education. They identify and seek to alleviate the suffering households experience as a result of poor financial circumstances. Yet they fail to effectively integrate such financial distress within a broader context of income inequality and volatility, unaffordable housing and unemployment. Instead, the problem is again turned inwards towards individuals—to their behaviours, practices and choices.

Capabilities and the capability approach

Storchi and Johnson argue for a broader idea of financial capability. As Figure 4 shows, here financial capability refers to 'financial knowledge and skills, attitudes, confidence and psychological features *within the economic, social and cultural context'* (Storchi & Johnson 2016, p.3, original emphasis).

As they point out, there is 'little agreement on the definition and measurement of financial literacy or on effective financial education strategies' and there is 'no evidence that increased financial literacy, measured in terms of knowledge of financial concepts, leads to improved financial decision-making' (Storchi & Johnson 2016, p. 2).

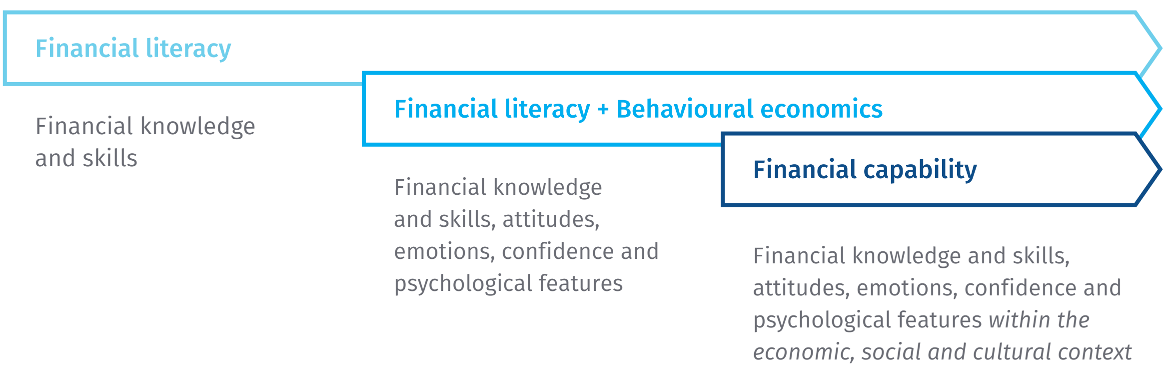
Citing Stuart and colleagues (2013) they emphasise the importance of life stage and circumstances, and cultural and social context. As they point out, the concept of financial capability allows for consideration of 'external structures which may or may not enable individuals to exercise their financial capability' (Storchi & Johnson 2016, p.4). Yet they also observe that the concept emphasises 'a set of optimal financial decisions, such as planning and budgeting' and characterises impulsivity or risk taking as 'a lack of financial capability' or 'poor money management skills' (p. 5).

They argue that Sen's capability approach provides the means to evaluate the extent to which financial literacy and capability improves people's lives:

> … what poor people regard as a good life is what primarily matters and how financial services can support them in the achievement of such priorities should guide the development and improvement of the financial sector. In this way, such improvement will be attuned to the social and cultural environment of reference, rather than the financial sector appearing as something distant which does not reflect people's values and goals (p. 8).

Figure 4

The evolution of the concept: from financial literacy to capability



Source: Storchi & Johnson 2016, p. 3

Financial wellbeing: protest, policy, practice and products continued

The capability approach recognises agency, aspirations and the structural and cultural factors that shape wellbeing. Importantly, Sen recognises that what he calls 'adaptive preferences' involve a kind of compromise:

> Our mental reactions to what we actually get and what we can sensibly expect to get may frequently involve compromises with a harsh reality. The destitute thrown into beggary, the vulnerable landless labourer precariously surviving at the edge of subsistence, the overworked domestic servant working round the clock, the subdued and subjugated housewife reconciled to her role and her fate, all tend to come to terms with their respective predicaments. The deprivations are suppressed and muffled in the scale of utilities (reflected by desire-fulfilment and happiness) by the necessity of endurance in uneventful survival. (Sen 1985, pp. 21–22).

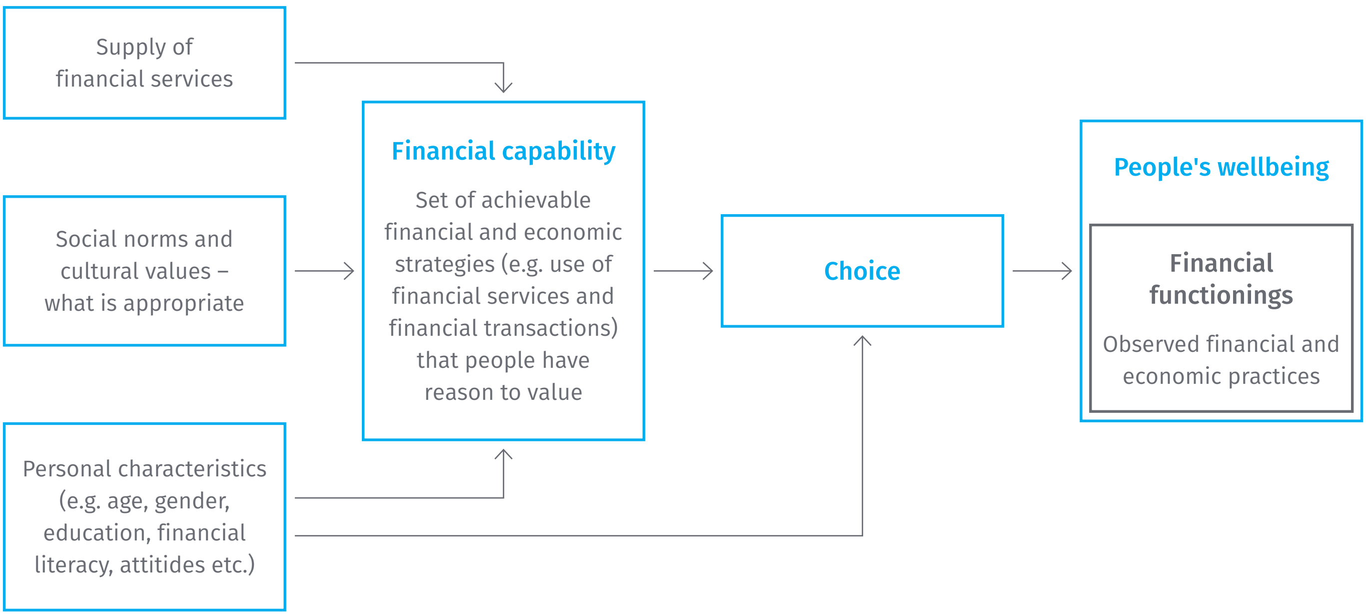
The issue of adaptive preferences is vexed (see Bowman 2010). Nevertheless, Storchi and Johnson emphasise the importance of listening to the poor because it 'represents what is potential and realistic in their life at the moment, even though a different person may see different opportunities' (Storchi & Johnson 2016, p. 12).

Figure 5 sets out Storchi's and Johnson's understanding of the factors that contribute to financial capability and in turn wellbeing. They recognise that financial wellbeing or what an individual can actually be or do is shaped by their financial capability set—that is, the supply of financial services, prevailing social norms and cultural values, and personal characteristics.

What this conceptualisation of financial wellbeing lacks, however, is a recognition of economic and financial contexts. This is important given the increased role of finance in the economy and lives of individuals.

Figure 5

Contributing factors to financial capability and its relation to people's wellbeing



Source: Storchi & Johnson 2016, p. 14

Vulnerabilities and financial resilience

Applying a different lens Australian research on 'financial resilience' examines the capacity of individuals to cope with financial shocks (Muir et al. 2016). Muir and co-authors define financial resilience as 'the ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity' (p. 5). They categorise these resources in terms of economic resources, financial products and services, financial knowledge and behaviour, and social capital (see Figure 6).

Here the focus is on the ability to 'bounce back' or adapt to changed circumstances. Muir and co-authors recognise that 'social and economic disparities mean that these factors are often outside the individual's control' and refer to this lack of control as 'vulnerability' (p. 18). They highlight vulnerabilities associated with economic status, racial and ethnic 'minority status', age and disability and acknowledge that these intersect. Importantly, they argue that responses need to be multidimensional and 'take into account the context of the individual' (p. 18).

While it may be useful for evaluating the extent of financial distress or wellbeing in Australia, the framing of socioeconomic status as vulnerability again serves to individualise the challenges that people face.

Figure 6

Resources that work together to enable financial resililience

Economic resources

- Savings
- Debt management
- Ability to meet living expenses
- Ability to raise funds in an emergency
- Income level

Financial products & services

- Access to a bank account
- Access to credit & needs met
- Access to insurance & needs met

Financial knowledge & behaviour

- Knowledge of financial products & services
- Confidence using financial products & services
- Willingness to seek financial advice
- Proactive financial actions

Social capital

- Social connections
- Access to social support in times of crisis
- Access to community and government support when needed

Source: Muir et al. 2016, p. 5

4 Financial wellbeing and economic security

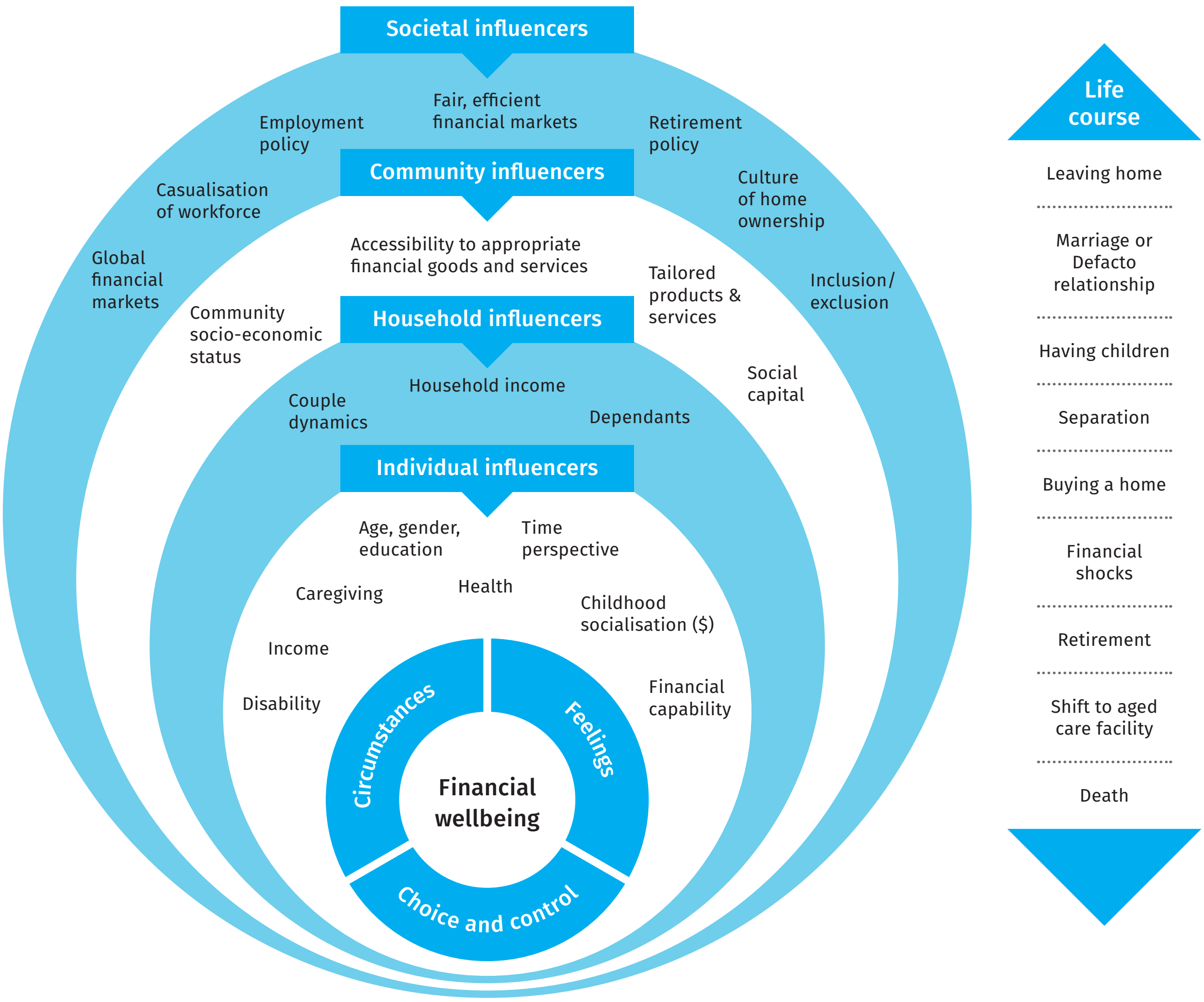
The current research by Muir and colleagues on financial wellbeing recognises the importance of identifying community and societal enablers and barriers. They also seek to understand how people's financial position changes over time. The aim of the Australian Financial Wellbeing Framework project (FLA 2016) is to develop a framework that can be used nationally, and is also relevant to the circumstances of those living on low incomes.

Muir and colleagues' life-course ecological model shows factors at societal, community, household and individual levels that influence financial wellbeing across the life course (see Figure 7).

Drawing on focus groups and stakeholder interviews, initial findings from this research highlight the complex interactions between the subjective feelings of wellbeing and objective measures.

Figure 7

Life-course ecological model of financial wellbeing



Source: Noone et al. 2016

The inclusive work and economic security framework developed by Bowman and van Kooy (2016) takes a different approach, highlighting the interrelated nature of labour market disadvantage and economic insecurity (see Figure 8).

The framework identifies four interrelated domains that provide the enabling conditions for the central goal of a fair, compassionate and just society. Economic security is understood as intimately interconnected to the related domains of inclusive employment, social infrastructure and social equity. Adequate social security, financial inclusion, appropriate regulation and protection, progressive taxes and transfers are key elements of economic security.

Crucially, such a multidimensional approach shifts the focus from individuals to the contexts that enable or constrain wellbeing.

Figure 8

Inclusive work and economic security framework

Source: Bowman & van Kooy 2016

5 Concluding comments

This paper has developed a basis for a broader understanding of the factors that shape financial wellbeing and the capacity of individuals to experience economic security. These important first steps pave the way for further research—theoretical and empirical—that examines not only why people make the choices they do, but also the personal, systemic and structural factors that constrain or enable opportunities.

In a period of increasing economic insecurity, policies designed to improve personal financial wellbeing should be very welcome. We argue that the concepts underlying and motivating the design of financial wellbeing policies, programs and practices require more careful consideration if this potential is to be realised. As a component of overall wellbeing, a better understanding of financial wellbeing has the potential to contribute to how we address economic security and social cohesion. Current attempts to aggregate broad social and economic factors, particular policies (financial inclusion and literacy) and individual behaviours, attitudes and skills into one construct are, however, underdeveloped.

At stake is whether financial wellbeing policies, programs and practices will actually improve financial wellbeing, have no effect or have the unintended consequence of entrenching inequality and poverty.

As a work in progress, financial wellbeing faces difficult conceptual challenges. We argue that relying on methodologies primarily centred on the individual distorts a framework that seeks to incorporate other domains. Rather, financial wellbeing policy design should start with concepts that centre on the social as the primary unit of analysis, within which individual characteristics are then analysed, and policies proposed.

As an evaluative tool, Sen's capability approach can be usefully deployed in meeting these challenges, but alone this will not be sufficient. Explanatory theories are also required to make sense of the processes that underpin poverty and inequality.

Further research and debate are urgently needed to define the relationships between the social and individual factors included in financial wellbeing constructs, and their relative significance in determining financial wellbeing, before effective financial wellbeing policy can be designed, implemented and evaluated.

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Contact us

Research & Policy Centre
Brotherhood of St Laurence

67 Brunswick Street
Fitzroy, Victoria 3065
Australia

T (03) 9483 1183
E research@bsl.org.au

bsl.org.au/knowledge