Money for wellbeing: developing emotional resilience and financial responsibility

The Smith Family & AXA Applied Research Project
November 2009

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developing emotional resilience and financial responsibility

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Message from Elaine Henry

CEO The Smith Family

The evidence has shown that in a 21st century knowledge society, financial literacy can be a key to closing the gap between those who participate in many ways in society and those who have been excluded. Improving financial literacy is beneficial not only for individuals, but also for facilitating relationships within and between social groups, enhancing cultural and social capital, and ultimately flowing through to an increase in productivity and the economy at large by effectively contributing to a more self-sufficient, employable and resilient community.

What experts are now starting to acknowledge is that conventional approaches to financial literacy education are falling short. New research from the emerging field of behavioural economics suggests that the psychological and behavioural aspects of how people manage their money need to be paid greater attention in the design of educational responses. Awareness, knowledge and basic skills are not proving to be enough for people to navigate the complexities of contemporary finance, to mitigate their personal risk and to cope with competing consumer pressures. And as highlighted by the current financial downturn, getting the balance right between spending and saving can be critical to maintaining our emotional wellbeing and health over the long term.

The Smith Family's own experience has shown that even after young people from disadvantaged backgrounds have benefited from financial educational opportunities, some may still find it difficult to break out of a 'culture of disadvantage'. To gain more understanding of the critical psychological and social components of money management, The Smith Family has commenced a three-year Applied Research Project, with the benefit of funding from AXA Asia Pacific. In this first phase, we have gained valuable insights into what the development of fuller financial capability involves, drawing on research findings from a range of disciplines beyond financial education.

In response to this new evidence base, these issues will be explored further through the design and testing of an innovative pilot program over the next two years. This will provide a new model for an integrated response to financial literacy for young people from disadvantaged backgrounds – one that encourages spending and savings behaviours that are in balance with personal wellbeing, while facilitating opportunities for attainment and growth.

The evidence and experiences from this project will then be used to consider the potential for a longitudinal study that measures the long term impact of these interventions on young people's financial and emotional wellbeing, and on their capacity to break the nexus of intergenerational disadvantage.

Elaine Henry, OAM

Chief Executive Officer

The Smith Family

Message from Andrew Penn

CEO AXA Asia Pacific Holdings

The education of children from disadvantaged backgrounds, which The Smith Family made its mission over a decade ago, is critical to breaking the cycle of disadvantage. But our knowledge of what this education needs to include keeps expanding.

While improved education generally increases earning power, this doesn't guarantee the breaking of the poverty cycle, nor does it automatically translate into wellbeing. The traditional economics literature assumes that people are fully informed when it comes to financial matters, forecast the future perfectly and are able to make rational financial decisions in their best interests. Having worked in the industry for over 25 years, I have seen first hand that these assumptions are simply not correct.

The sheer complexity of the financial world combined with the various human biases that the field of behavioural research has now documented mean that individuals tend to make poor decisions, both in terms of their own interests and in terms of the broader economy.

Recognising that new skills and behaviours need to be learned to make the most of modern life has led AXA to have an unyielding commitment to quality financial advice – advice that is based on considerable economic and behavioural research.

It is vitally important that the disadvantaged are able to access this knowledge, especially since disadvantage further undermines one's ability to make good quality financial decisions. In this regard I am delighted that we are able to work in partnership with The Smith Family in this Applied Research Project to improve the money skills and behaviours of disadvantaged children. I believe this will bring considerable long term advantages to both the children and the country.

The first phase of this Project, represented by this report, provides us with a very sound foundation for understanding the dimensions of the problem. I commend the research team for the thoroughness of their review of the academic literature. And I would like to express my appreciation for the valuable contribution made by Dr Timothy Sharp of The Happiness Institute.

We are now well placed to develop practical programs to address the issues involved. Integrated with TSF's overall programs, I am excited by the prospect that over time we can make a difference not just to the bank balance, but also to the life balance of disadvantaged children.

Andrew Penn

Chief Executive Officer

AXA Asia Pacific Holdings

Executive summary

Money for wellbeing

In times of economic downturn, the role of money and consumption in our lives comes more sharply into focus. The relationship we have with money can either support or undermine both our financial and our emotional wellbeing. A key challenge in a consumer-orientated society is to be able to balance our spending behaviours with our personal income and personal wellbeing. This involves the ability to distinguish between what we *want* and what we really *need*. Money is then a resource for enhancing our wellbeing, rather than an end in itself (Abey & Ford, 2008). Knowing just how much is enough is a critical life skill. To develop effective money management, it is also an important outcome of any financial education program.

Traditional *information*-based approaches to building financial capability are falling short. More knowledge does not necessarily result in good decision-making. The critical importance of psychological factors has now become evident in major research findings (de Meza *et al*., 2008). People's attitudes and patterns of thinking appear to be the main driver of what they actually do with money, not the technical information or skills they have.

For disadvantaged families, poor financial decision-making is costly. Ineffective money management can create a barrier to fuller social inclusion. The Smith Family's experience of financial literacy initiatives has shown that even after young people from disadvantaged backgrounds have benefited from educational opportunities, some may still find it difficult to break out of a 'culture of disadvantage'.

The objectives of the TSF & AXA Applied Research Project

To provide more effective interventions for young people from disadvantaged backgrounds, we need a greater understanding of these underlying *psychological and social* aspects of financial literacy. How can patterns of financial behaviour be changed so that money functions as a resource for wellbeing? What interventions can support the development of these capacities in young people?

This line of enquiry has been the main objective for the literature review as the first phase of the TSF & AXA Applied Research Project. This provides a knowledge base for the next phase of the project. Through the development of a pilot program aimed at young people, we will test out new responses that directly address psychosocial factors. We will also consider how we can facilitate change at a *community* level, with reference to The Smith Family's broader agenda for societal change.

To address these questions, the review has drawn on research from a range of disciplines beyond financial education. This includes public health, education, psychology, sociology, and the emerging fields of behavioural economics and 'happiness studies'.

What does the research tell us?

The importance of psychological and social factors in the development of financial literacy and our relationship with money

- **The development of literacies requires lifelong learning**. As social and technological processes evolve, we need to update our knowledge and skills. Different capacities are also needed at different key stages of our lives.
- **Literacies are inter-related** (Unsworth, 2001). Effective financial literacy now requires digital literacy as well as numeracy, comprehension and writing skills.
- **Literacy and social inclusion are closely linked.** Firstly, people need to participate in a broad range of activities and social settings to develop literacies (UNESCO, 2004). Secondly, being literate enables people to participate more fully in activities and social settings. Barriers to such opportunities will inevitably limit young people's potential to experience higher levels of well-being.
- **People's attitudes, aspirations and behaviours around money and attainment are strongly influenced by those of the people around them**. This is a cyclical process. Firstly, social norms, attitudes and aspirations ('cultural capital') are transferred across families, neighborhoods and institutions. This then influences people's own beliefs, expectations and patterns of behaviour. As behaviours change over time, social norms change and the cycle continues (PMSU, 2008).
- **Our families and peers are the primary influence in this process** (WBL, 2008). At a broader level of influence, legislation, religion, thought leadership, marketing and mass media also shape our attitudes and beliefs. Young people's horizons can therefore be restricted by a lack of more diverse social networks and experiences. This creates barriers to change (PMSU, 2008). In this way, patterns of financial behaviour and relationships with money are transferred across generations.
- **'Behavioural biases' also strongly impact on financial decision-making**. These biases are deep-seated habits of thinking that compromise rational and reasoned decision-making (Kahneman & Tversky, 1979). Biases include using unreliable mental 'short-cuts', procrastinating, avoiding risks with potential loss, and being short-sighted. These habits of thinking and acting are so deep-rooted that information-based approaches to financial education tend to have limited effects on changing actual financial behaviour in the long-term (de Meza *et al.*, 2008; McAuley, 2008).

The complex relationship between money and wellbeing

- **The economics of happiness is complex. The conclusion from extensive findings is that money does not tend to 'buy happiness', unless a person is living on the breadline** (Bruni & Porta, 2007). In the pursuit of happiness, if money serves as an end in itself, it is unlikely to increase our sense of wellbeing. This is explained by the 'happiness treadmill' effects. Despite increases in wealth or consumption, these effects maintain a *status quo* in our levels of positive feeling.
- **In our efforts to 'keep up with the Joneses', we tend to undermine the positive effects of affluence**. Our sense of satisfaction is influenced more by *relative* than *absolute* levels of income (Oswald, 2006). This sense of having less than others has

the most negative psychological effects. The social stresses and shame that can result are strongly associated with poor physical and mental health outcomes (Friedli, 2009; Wilkinson & Pickett, 2009). This affects the quality of family relationships, care of children and productivity.

- **Positive wellbeing over the long term requires more than pleasure and short-term satisfaction.** More 'authentic happiness' results from realising our own potential (Seligman, 2002). This involves non-material pursuits, inner motivations, creative fulfilment and meaningful relationships in our lives. These kinds of experiences can build inner psychological resources for the future. These can help us resist the social pressures and distractions that undermine financial and emotional well-being.
- **Basing our financial strategies on personal values and goals, rather than on impulsive behaviours and external pressures, results in more positive outcomes** (Abey & Ford, 2008).

Changing behaviours and developing life skills

- **Behaviour change occurs in stages or cycles**. The first stage involves thinking about and preparing for change. New behaviours are then taken up, may lapse and are re-adopted until they become habitual (Gielen & Sleet, 2003). Certain conditions need to be in place for a person to progress through each stage. Different interventions can be selected appropriately to match each of these.
- **A range of key determinants have been identified for successful behaviour change.** Internal factors include the person's attitudes, expectations and sense of confidence and control. External influences include a range of social, cultural, spiritual, legal and political factors (Fishbein *et al*., 2001).
- **A range of structured interventions have been designed for behaviour change.** These strategies remove barriers to change or, else, provide incentives to change (Gielen & Sleet, 2003). These include approaches that aim to:
  a. **change our patterns of thinking and the way we respond to the world** (eg *cognitive behaviour therapy*);
  b. **enhance the personal traits that help us to adapt to positive change and develop resilience** (eg *positive psychology*);
  c. **design the conditions that direct people to more beneficial choices and discourage irrational decisions** (*choice architecture)*;
  d. **create positive incentives that will encourage us to 'buy into' new ways of behaving, as 'consumers'** (*social marketing*).
- **Another approach to change aimed at young people is 'life skills-based education'** (WHO & UNICEF). This educational framework emphasises the importance of developing inner capacities or 'psychosocial skills', as well as the practical skills we need in daily life. Three categories of life skills are identified:
  a. **Self-management and coping skills.** These involve forming a positive identity, valuing oneself, setting goals, and building dreams, with a strong sense of personal agency. These capacities are critical for developing positive expectations and aspirations, and realising goals through positive action.

b. **Critical thinking and decision-making skills.** These involve the cognitive skills we use for analyzing, problem solving, evaluating, defining alternatives and choosing a solution.

c. **Interpersonal skills.** These involve effective communication such as negotiation, assertiveness, refusal, co-operation and empathy. These skills can support advantageous transactions and enhance the bridging relationships that connect us to broader opportunities for participation and enterprise.

- These inner capacities can help young people to adopt positive new behaviours and deal effectively with the challenges of everyday life (Hoffmann, 2008). For young people who have experienced disadvantage, the development of life skills can lower their vulnerability to future risks and help them to build resilience and protection (Friedli, 2009).

What are the implications of the research for policy and practice?

Attitudinal, behavioural and psychosocial components need to be paid greater attention in responses to building capacity for money management. In addition to technical aptitude, achieving our fullest financial potential involves taking control of the psychological and social influences that impact on our financial wellbeing. This requires us to be informed and skillful but also thoughtful, enterprising, adaptive and resilient. These broader attributes can help us handle financial issues competently, with awareness of how our decisions impact on our well-being (LTS, 2009).

A broader set of skills and capacities are required than have been traditionally associated with financial literacy education. This expanded model comprises the following three components:

a. **The essential technical knowledge and skills typically associated with money management.** These include product knowledge, saving and budgeting, etc.

b. **Other related literacies needed to carry out activities relating to money management.** This includes numeracy, comprehension literacy and digital literacy.

c. **Life skills or 'psychosocial skills'**, including self-management and coping skills; critical thinking and decision-making skills; and interpersonal skills. These build the inner resources and resilience that enable effective and responsible financial behaviour. They can help people to navigate the complex choices and risks of contemporary finance with a stronger sense of personal agency. They may also neutralise negative thinking patterns or behaviour biases.

Secondly, for young people from disadvantaged backgrounds, the evidence suggests that **three complementary strategies could be used to support money for wellbeing**:

1. **Building personal capability through educational interventions.** Drawing on methods and resources from positive psychology, a life skills-based approach could be used to develop psychosocial skills and capacities in young people. To integrate new knowledge, attitudes and behaviours, the program would benefit from interactive, learner-centred methodologies, problem-based learning and

opportunities for modelling new behaviours through role play and computer simulation.

2. **Employing complementary behaviour change initiatives at a community or national level.** These could be implemented through policy, legislation and regulation, and through the use of effective social marketing and choice architecture strategies. These would encourage broader changes to social patterns of spending and consumption.

3. **Facilitating access to and participation in broader social settings and networks that are well resourced and connected.** These can provide young people with:

   - **greater opportunities to develop the skills and capacities relevant to financial capability.** This could provide a broader 'apprenticeship' in the challenges of contemporary money management; and
   - **access to more diverse environments and relationships**. This could broaden attitudes, expectations, aspirations and self-efficacy around money and wellbeing.

This final strategy is central to The Smith Family's broader approach. It recognises that the characteristics of people's environment and the quality of the relationships they are able to develop strongly influence an individual's learning outcomes.

Introduction

Although the risks and contradictions of life go on being as socially produced as ever, the duty and necessity of coping with them has been delegated to our individual selves.

Zygmunt Bauman (2007)

Money for wellbeing – a holistic approach to building financial capability

Our relationship with money can either support or undermine both our financial and our emotional wellbeing. A key challenge in a consumer-orientated society is being able to balance our spending behaviours with our personal income. This involves the ability to distinguish between what we *want* and what we really *need*. Knowing just how much is enough is a critical life skill.

Achieving our fullest financial potential is about being able to control the *psychological and social influences* on our financial wellbeing. The development of these inner capacities is an important outcome of a financial education program. Effective money management goes beyond the purely technical knowledge and skills traditionally associated with financial literacy. For money to be a resource that supports our wellbeing, our financial strategies need to be based on personal values and goals (Abey & Ford, 2008). Conventional information-based approaches to financial literacy are not proving to be enough to achieve this level of financial responsibility and resilience.

In times of economic downturn, the role of money and consumption in our lives comes more sharply into focus. The management of personal finances has always required certain competencies. However, over the last two decades, the complexity and overload of contemporary financial products has left large gaps in knowledge and capability.[1] OECD countries are facing huge rises in consumer debt, low levels of savings for retirement, the selling of inappropriate and complex products, and under-coverage of personal risks with severe long-term consequences.[2] Though higher levels of personal financial capability are now required, research in OECD economies indicates a low level of financial education, with a related lack of financial awareness and responsibility.[3]

Financial capability and disadvantaged families

For disadvantaged families, personal financial behaviours can maintain cycles of intergenerational disadvantage.[4] A lack of opportunity for social participation and access to financial markets limits the development of financial capability. Skills are not developed to transfer to other family members and peers.[5] Poor financial decision-making impacts on other outcomes, including education and employment.

Young people can be particularly vulnerable. This is due to insufficient financial education and the lack of a sound financial 'apprenticeship' in contemporary money practices. The Smith Family's experience of financial literacy initiatives has shown that even after young people from disadvantaged backgrounds have benefited from educational opportunities, some may still find it difficult to break out of a 'culture of disadvantage'.

Such attitudinal and behavioural associations with money have wider social consequences. Within affluent and consumerist societies, the 'new poor' have been constructed as *'flawed* or *failed consumers'* (Bauman, 2007). This creates the social shame and stresses of 'not having' that can undermine physical and mental health. The acclaimed book *The Spirit Level* reveals the widespread consequences of these psychological responses to status differences in developed economies such as Australia.[6]

The critical attitudinal and behavioural components of financial literacy

The critical importance of psychological and behavioural factors is now becoming evident in the findings from several major reports on financial capability. Both the UK Financial Services Authority 2008 report[7] and the Financial Literacy Foundation's 2007 report strongly argue that psychological rather than informational differences explain much of the variation in financial capability. The authors conclude that conventional financial education is unlikely to have major lasting effects on knowledge and especially on behaviour. People's financial behaviour depends more on their inner psychological characteristics than on information or skills. **Psychology, both our emotional and cognitive processes, appears to be the main driver of what we actually do with money.**

The TSF & AXA Applied Research Project

To provide more effective interventions for young people from disadvantaged backgrounds, we need a greater understanding of these underlying psychological and social aspects of financial literacy. How can patterns of financial behaviour be changed so that money functions as a resource for wellbeing? What interventions can support the development of these capacities in young people?

This line of enquiry is the main objective for the TSF & AXA Applied Research Project. This is with the aim of providing more effective methods to increase financial capability in young people, particularly those from disadvantaged backgrounds. This is with the overall goal of **money serving as a resource for wellbeing**.

The research project comprises three main phases, to be implemented over a three-year period:

Phase 1: A review of the literature to gain a greater understanding of the psychological and social aspects of financial behaviour and how these patterns can be transformed.

Phase 2: The development and testing of a pilot program in response to the evidence from the literature review. The program will be designed for adolescents with the aim of improving ways of thinking and behaving that encourage 'money for wellbeing'.

Phase 3: The implementation and evaluation of the pilot program taken to scale over a two-year period.

The findings from this project will then be used to consider the potential for a *longitudinal* study to look at the long term impact of these interventions.

The structure and scope of the literature review

Our starting point for this review is the proposal that **the psychological and social factors associated with financial education need to be paid greater attention**. For young people from contexts of disadvantage, addressing these aspects may be all the more critical to ensuring people have the capacity to reach their full potential.

To address these questions, this review has drawn on research from a range of disciplines beyond financial education. This includes public health, education, psychology, sociology, and the emerging fields of behavioural economics and 'happiness studies'. Frameworks from these other domains have been applied to the specific context of personal finance, highlighting the need for more tailored research in this area.

The literature review has the following structure:

> In *Part 1* of the paper, we consider what financial literacy may involve, with reference to current financial education initiatives and broader perspectives on how literacies, in general, develop.
>
> In *Part 2* and *Part 3* of the paper, we explore the psychological and social aspects of financial decision-making, money management and consumption. This includes the nature of our relationship with money and how this may impact on our perceptions of happiness and wellbeing in our lives.
>
> In *Part 4*, we look at the social processes that shape people's attitudes, aspirations and behaviours.
>
> In *Part 5* of the paper, we consider how behaviours change. Having identified the key determinants of change, we review several contrasting approaches that can facilitate change in individuals or groups.
>
> In *Part 6*, we focus on an educational approach to behaviour change that emphasises the development of life skills in young people.
>
> Finally in Part 7, we review the key findings from this broad body of evidence and consider the implications for young people from disadvantaged backgrounds. We then suggest how approaches to building financial responsibility may better respond to the evidence.

Given the potential breadth and complexity of these topics, the literature review has been necessarily selective, with an emphasis on identifying key concepts, relevant frameworks and findings from the recent literature. This will provide a richer evidence base for The Smith Family to inform both policy and practice around financial education and related areas of life skill development for young people. More specifically, this knowledge will inform the design of the next phase of the TSF & AXA Applied Research Project, where new concepts and innovations can be tested in an applied setting.

Part 1. Broadening the scope of financial literacy

To design an integrated response for the building of financial capacity, we need a broader and richer working description of what might constitute financial literacy.

Firstly, the description has to take in **personal finance and the range of financial activities or practices** that are required to manage personal and/or household finances across the life course. This needs also to include areas such as long-term financial planning and saving, investment, insurance and consumer activities.

Secondly, the description will encompass the **knowledge**, **attitudes**, **skills** *and* **behaviours** required for financial capability. These extend beyond the technical skills of personal finance to include **underlying skills and capacities – both practical and psychological** - that may underpin long term financial wellbeing.

Additionally, the description needs to embrace **the social dimensions of financial literacy**. This perspective looks at how people's relationship with money and their financial behaviour is shaped by their participation in social worlds and by their personal histories, thereby addressing the *intergenerational* effects of financial behaviour and social disadvantage at a later stage in the project.

Definitions and perspectives from financial literacy education

Traditional definitions of financial literacy have tended to focus either on the ability of individuals to *competently perform a range of activities* necessary for personal finance[8] or else, to make *informed judgements and effective decisions* about the use and management of money.[9] As these descriptors tend to be over-simplified, it is useful to review the **objectives and intended outcomes of financial *education* initiatives** as these may provide more insights into how financial literacy has been conceptualised to date.

A survey of a broad range of Australian and international policy frameworks and educational responses for achieving financial capability reveals a continuum of objectives that ranges from 'raising awareness' of issues and products relating to personal finance through to 'facilitating enterprising financial behaviour'. These characteristics are displayed below in *Figure 1.1*.

Fig 1.1 The continuum from 'awareness' through to 'enterprise'

The majority of existing program objectives tend to be located **at the 'awareness-raising' and 'knowledge building' end of the continuum**. The emphasis is on providing accurate, clear and unbiased consumer information on a range of relevant topics. However, many initiatives also aim to build technical skills and competence relating to personal finance. While the overall goal of such programs and frameworks is to provide the technical aptitude that may *facilitate* more positive and advantageous financial behaviours in the long term, **few mainstream programs actually incorporate methodological components that are explicitly designed to develop more positive attitudes and behaviours around money**. The emphasis is on practical knowledge and skill building rather than on attitudinal and behaviour change.[10]

Moving further along the continuum, few educational curricula have included the objective of **socially responsible financial behaviour** as an educational outcome. To date, this objective tends to be addressed through *awareness-raising* of the pitfalls of high interest credit lines and the burden of household debt, rather than through behavioural change components. However, one of the consequences of the emerging global financial crisis is that we are seeing an increased emphasis on this notion of *fiscal responsibility*, with institutional accountability and regulation under review, and a growing awareness of the extreme level of personal debt in Australia.

Finally, within the educational initiatives surveyed, there are but a few isolated examples that include ***enterprising* financial behaviour** as a program objective. This facet of income generation tends to be dealt with in the context of 'self-help' style seminars and resources that offer advice for rapid wealth creation or else investment in dubious 'high risk/high return' schemes. However, enterprise and entrepreneurship are important aspects of financial behaviour to be considered in developing resourcefulness and innovation in young people.[11]

A broad survey of Australian and international approaches to financial education also reveals that, almost without exception, personal finance is treated as a 'stand alone' subject area. This is in contrast to a more *integrated* approach to wellbeing that allows people to bring together the technical 'know how' needed to manage and sustain their resources with the attitudes and behaviours that positively support this across the life course (Abey & Ford, 2008).

***Non*-financial skills or capacities,** whether technical or psychosocial, that might underpin or support financial capability **are seen to be beyond the scope of these programs and/or are assumed to already be in place**. However, with growing evidence of the limited impact of existing financial education initiatives on generating positive change, such *co*-requisites may prove be critical factors for success and these need to be explicated.

A notable exception would be the financial education component of the new national '*Curriculum for Excellence'* in Scotland.[12] Along with technical knowledge and competence, this cross-cutting and inter-disciplinary curriculum includes the key objectives of '**financial responsibility'** to self, others and the environment, together with the concept of '**financial enterprise'** through the development of confident, innovative and creative use of skills and resources. In this framework, from a societal perspective it is expected that financial capability will help to:

1. Develop **informed, skilled, thoughtful, enterprising and adaptive people** who are able to contribute through the work they do, to sustainable economic development;

2. Foster a society whose citizens are empowered to handle financial and economic issues competently and with sensitivity to the possible impact of financial decisions on their **own physical, emotional and mental health and well-being, on other people and their relationships with them** and on the environment.[13]

Thinking more broadly about financial literacy

The Scottish framework draws attention to several key issues to consider in conceptualising a more *integrated* approach to financial literacy in the Australian context. To further broaden our perspective, it is useful to draw on research into traditional literacy,[14] where significant theoretical and pedagogical work has been undertaken to describe **the social dimensions of how we acquire and apply relevant skills and capacities**.

How are literacies developed?

Understandings of the traditional term 'literacy' have expanded beyond the limited sense of 'decoding' (reading) and 'encoding' (writing) abilities to encompass the *socially* based nature of the texts that we interact with in our daily lives. The United Nations Education, Science and Culture Organisation (UNESCO) describe literacy as "*the ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with varying contexts*", involving "*a continuum of learning in enabling individuals to achieve their goals, to develop their knowledge and potential, and to participate fully in their community and wider society*."[15]

Rather than seeing literacy as merely a generic set of decontextualised technical skills, UNESCO emphasises that it is **shaped by our social settings and institutions**, **such as the family, community, schools, workplaces and the state**.[16] How individuals acquire and apply literacies can therefore be limited by a lack of access to social relationships and more diverse contexts. This is important to keep in mind in terms of TSF's agenda of unlocking opportunities for disadvantaged families in a number of different settings.[17] While **social participation allows us to *develop* literacies,** at the same time, **having these capacities enables us to *participate* more fully in society**.

Literacy as learning for life

The acquisition of literacies is also a *dynamic* process requiring **learning across the life course**. In the case of financial literacy, people require different financial and consumer skills **at different stages in their life course** in preparation for **key transition points and life events** (eg leaving home, entering the workforce, losing their job, illness, retirement, buying a car, signing a tenancy agreement, etc).

Literacies evolve over time as a consequence of social and technological transformations. Individuals who considered themselves to be 'literate' at a given point in time in a field of activity may now have lost some of this capacity from limited

exposure to and involvement in new literacy practices and contexts. The shift towards client responsibility for decision-making and management of increasingly complex financial products along with market deregulation has seen many people ill-equipped for these tasks yet overly confident of their knowledge and abilities.[18]

What other technical knowledge and skills does financial literacy involve?

Increasingly, a view of literacy as **the capacity to participate in social practices** has expanded the traditional use of the term to include new activity types. Along with financial literacy, these include **health literacy, digital literacy, multi-modal literacy** and **information literacy**. As with traditional literacy, these 'new literacies' can be seen as sets of **domain-specific knowledge, skills and capacities** that are acquired over time, allowing individuals and groups to carry out and create shared social practices. The boundaries of these domains are essentially 'fuzzy' because **very few social practices happen in isolation and literacies are developed and drawn on holistically**.[19]

It is important at this stage, therefore, to set out **the kinds of complementary knowledge and co-requisite technical skill sets** that might underpin or support financial capability in the 21st century.

Firstly, **traditional literacy** and **numeracy** are fundamental to financial literacy. The emergence of numeracy cannot be separated from the emergence of basic financial literacy in the early years. While recent studies have found a correlation between lower levels of general education and lower levels of financial literacy (ANZ, 2008), more detailed research is needed into the relationship between an individual's level of written literacy and numeracy, and their corresponding level of financial literacy.

Secondly, several other technical literacies are also **co-requisites for financial literacy**. Of these, **digital literacy**, **multi-modal literacy** and **information literacy** are immediately relevant to the skills required to successfully manage personal finance and access contemporary products.[20] To illustrate this, consider the context of online banking and the range of technical knowledge and skills, beyond personal finance, that might be involved to successfully complete a series of inquiries and transactions.

The essential attitudinal and behavioural components of financial literacy

As was discussed in the introduction, **the critical importance of attitudinal and behavioural factors in determining financial outcomes is becoming increasingly evident in the research findings**. People's financial behaviour may depend more on their intrinsic psychological attributes than on information or skills or how they choose to deploy them.

Findings from the Financial Literacy Foundation's national survey (2007) provide evidence of the widespread nature of imprudent or ill-considered financial practices and reveal "*a range of money attitudes and beliefs that are inimical to people investing the time and effort required in taking the steps to improve their money skills and behaviour*."[21] These included stress and discomfort, boredom and disinterest, and personal relevance and procrastination.[22] The survey also indicated a subset of people who, while reporting confidence in their abilities, exhibited financial behaviour that actually indicated a serious *lack of financial capability*. The report noted that for these

people, a perceived lack of personal relevance or importance, rather than technical ability, appeared to be a more significant factor in determining outcomes. This indicated that **attitudes or beliefs impede people's awareness of the need to learn,** and their progression from awareness to learning and action.[23]

In addition to including other technical skills and capacities as co-requisites for achieving financial literacy, the picture of financial literacy needs to be further expanded to consider **the psychosocial skills and capacities or 'life skills'** that are required to ensure the adoption of positive behaviours around money management across the life course.

An expanded description of financial literacy

Based on our initial findings, *Figure 1.2* sets out an expanded model of what financial literacy involves.

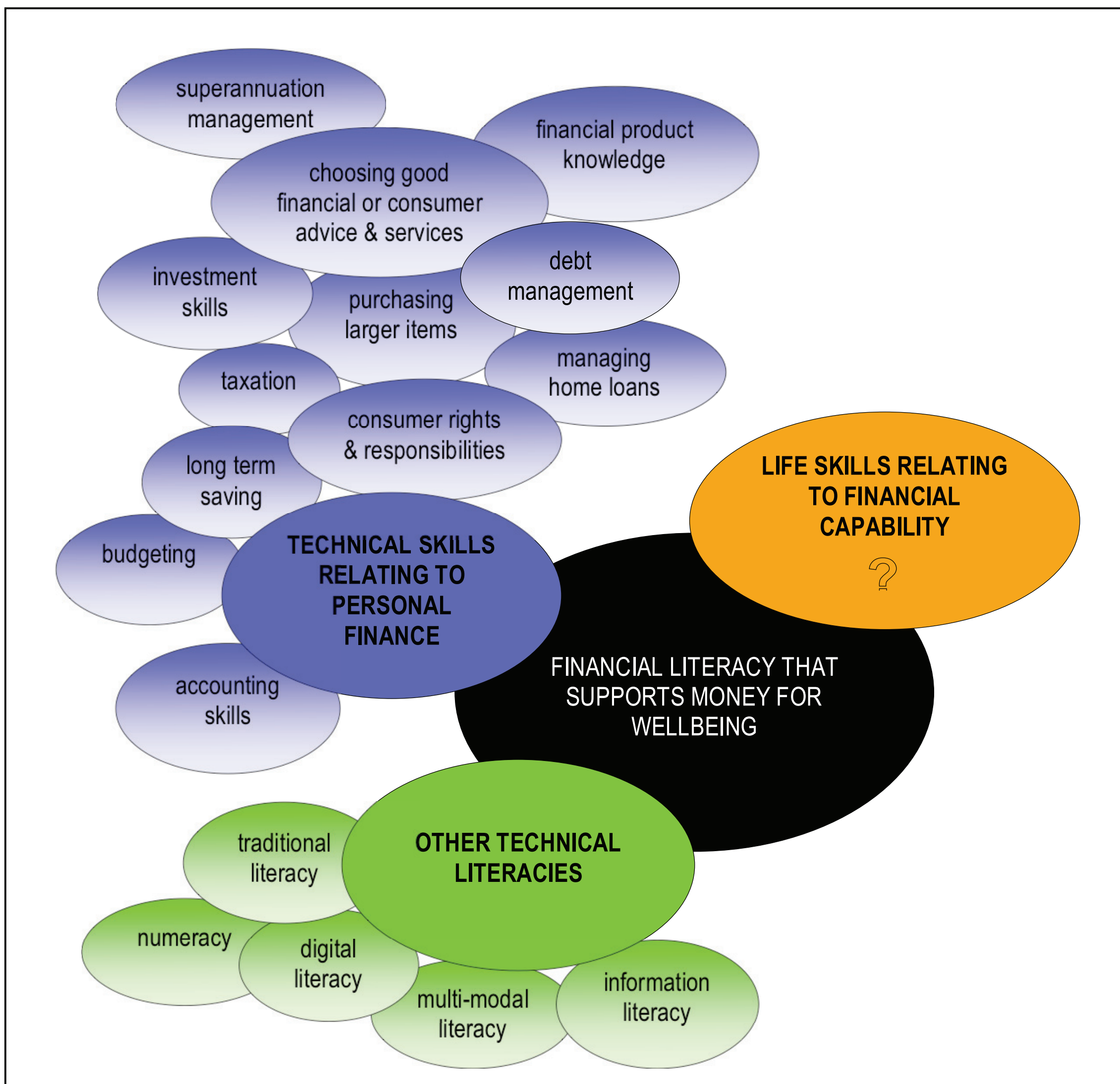

Fig 1.2 An expanded model of financial literacy to support money for wellbeing

This includes the following three components:

1. The **technical knowledge, skills and capacities that pertain directly to personal finance.** (These are typically found as the key components of financial education curricula).

2. The co-requisite **technical knowledge, skills and capacities that relate indirectly to money management and consumer practices**.

3. The kinds of **life skills** (psychosocial) that may **underpin positive attitudes and behaviours** around money management and allow money to function as a resource for wellbeing.

This model will serve as a reference map to explore the literature further. The main focus will be on gaining more understanding of the **attitudinal and behavioural aspects of money management**, **and the life skills component of the proposed model, which require further development**. This will provide insights into the enabling factors that bring together technical knowledge and skills, and the personal values, beliefs and capacities that support financial and personal 'wellbeing'.

Part 2. Financial behaviour and decision-making – findings from behavioural economics

Public health and community development models have long understood that awareness and knowledge alone are rarely enough for positive behaviour change. However, the realization that an information-based approach to financial education may have no more than a *modest* effect on long-term outcomes is only now gaining momentum in the personal finance literature.[24]

As the emerging field of behavioural economics has highlighted, **despite the knowledge we may hold**, **our ability to consistently make rational and reasoned decisions is often compromised**. Our choices do not always result in maximum happiness or maximum 'utility', as it is referred to in economics. People's financial behaviour may be driven **more by their intrinsic psychological attributes than by technical knowledge or skills** (de Meza *et al.*, 2008).

Understanding the basis of irrational financial behaviour has always been important but it has assumed greater importance over the last twenty to thirty years with the shift in decision-making and liability towards the individual. While those people who are well educated in finance are not *necessarily* much better at decision-making than the general population, they may have more resources to buffer the consequences of their poor judgement (McAuley, 2008). **For those living "closer to the edge", the consequences of poor financial decisions may be far more serious**. With the current economic downturn, this is becoming ever more apparent.

Why we make irrational financial decisions

The emerging discipline of behavioural economics literature has provided explanations for why we make certain, consistent departures from what is generally described as "rational" decision-making.[25] This condition is referred to as '**bounded rationality**'.

What this means is that despite our desire to *think* that we make good choices, most of the time we rely on *a flawed system of utilising the most accessible and the least challenging information to make judgments* (Harrison, 2007). Generally speaking, our minds do not have the capacity to constantly weigh up all the options, and therefore, we look to patterns that will not challenge our egos or our current belief system.

These departures from rational decision-making are seen to be the result of **a range of deep-seated behavioural biases** that come into play when we are faced with decisions. These include: our use of **mental short cuts** ("**heuristics**"); our tendency to be overly influenced by the way in which a problem is presented to us ("**framing**" or "**anchoring**"); and our inability to plan for the long-term with a tendency towards **short sightedness** ("**myopia**") and "**procrastination**", as outlined below.[26]

Making decisions using mental short cuts or heuristics

Mental short cuts usually serve us well and have been developed out of evolutionary necessity (McAuley, 2008). By economizing on our 'search costs', they allow us to make efficient decisions most of the time. However, we are often hasty in our decision-making, over-relying on mental rules of thumb. Our mistakes often result from using the **wrong mode of decision-making**.

Rather than using a *reasoning* (or rational) mode to make complex financial decisions, we have a tendency to fall back on an *intuitive* (or impulsive) mode in situations where more deliberation is actually required.[27] New studies suggest that the parts of our brain devoted to planning and carefully considered problem solving are relatively modern in the evolutionary time scale. As noted by Abey and Ford (2008), **human evolution has not prepared the brain for decision-making around complex investment**, and we are hence mentally ill-equipped for such tasks, to our financial detriment.

The implication of this for financial literacy is that even if our rational faculties are in order and we understand concepts such as discounting, compounding, etc., we still need to know when we should *activate* this reasoning mode of thinking (McAuley, 2008). And we also need to know *how to keep it activated* against the background noise of confusion and other competing demands on us.

Behavioural biases relevant to financial decision-making

A range of specific behavioural biases have been identified in the behavioural economics literature as set out below:[28]

Regret and loss aversion

This refers to the tendency to think that "**losses loom larger than improvements or gains**" (Kahneman & Tversky, 1979). As noted by Abey and Ford (2008), the research indicates that the pain of loss is possibly two times stronger than the pleasure we experience from a gain of equal value. Loss aversion is linked more to **the pain of regret as a more powerful emotion** rather than to our actual material losses. People are concerned not only with what they have but how it compares to what they used to have and with what they might have had. This aversion bias strongly influences a range of irrational financial choices that are aimed at minimizing the pain that comes from additional losses. For example, we may hold on to losing stock too long, sell winning stock too early and sink additional funds into ventures that are already proving to be disappointing (de Meza, *et al.*, 2008).

Loss aversion is also linked to **our reluctance to invest with uncertain results**. However, in seeking to minimise short-term loss, such risk-averse investors may consequently lose the possibility of significant gain, potentially incurring greater losses (Abey and Ford, 2008). The more frequently investors evaluate their returns, facilitated by the immediacy of new online technologies, the more likely they are to make inappropriate decisions.

Availability bias – 'ease of recall'

This refers to our tendency to **overestimate the risk of events that we can imagine more vividly,** and conversely, to underestimate the risk of things that are less apparent. In financial markets this bias can result in people spending too much on insurance against events with high visibility and high fear factors such as terrorist attacks, while leaving themselves exposed to less obvious risks (McAuley, 2008). This also affects our ability to make decisions where consequences are pushed further into the future. For example, for a young person, contemplating what may be needed for financial security during retirement is far less salient than imagining the immediate negative consequences of contributing a considerable sum of money into a superannuation fund in the 'here and now'.

Mental accounting

Mental accounting refers to the tendency to compartmentalize different areas of our spending and saving.[29] People use this technique to evaluate and keep track of their finances and impose internal controls on spending. However, this can also lead to highly irrational decisions as in reality, money is 'fungible' - that is, one dollar has the same value as any other dollar that we own. Dan Gilbert's (2005) experimental work provides strong evidence of this common tendency and he illustrates this with the following two scenarios:

> *Scenario 1: On the way to see a show, you find you have lost your pre-purchased $20 theatre ticket. Do you decide to use the remaining $20 note in your wallet to buy another ticket?*
>
> *Scenario 2: You are on the way to the theatre to buy a ticket to see a show when you find you have lost $20 from your wallet. Do you use the remaining $20 note in your wallet to buy the theatre ticket?*

While both scenarios result in an overall loss of $40, Gilbert found that significantly more individuals would decide *not* to continue to see the show in Scenario *1* than in Scenario *2*. In other words, they would choose *not to buy* a replacement ticket as this meant spending money that had *already been used* from their imaginary 'entertainment fund'. In the second scenario, however, most people feel they were going to buy the ticket *anyway*, and the loss of the $20 was hence unfortunate but disconnected.

Other examples of this would be applying different spending behaviours in relation to money that comes from sources that we perceive as outside our 'normal income', such as bonus payments, tax refunds, lottery winnings and inheritances. We may choose to spend such windfalls **far more carelessly than usual**, or, conversely, quarantine these funds rather than putting them to good use as part of our overall financial planning (McAuley, 2008). Another example of this compartmentalization is saving at low interest rates while simultaneously borrowing at high rates.

Status quo bias or 'endowment effect'

Status quo bias refers to the tendency for people to stay with their prior choices, even if apparently better options become available. Experimental research indicates that once people own something, they tend to 'endow' the object with far more value than they would if they had to purchase it for a second time (Gilbert, 2005).

Default bias

This bias refers to the powerful influence of default options that discourage people from exploring other choices. A common example of this would be our choice of superannuation fund. Not only do most people go along with the default fund offered by their employer, but they are also far more likely to take up life insurance if the product is bundled with their superannuation and presented as an "opt out" rather than an "opt in" decision. This strategy is sometimes referred to as "soft compulsion", as the freedom for the consumer to choose is seemingly preserved, but **the presence of a default implies the existence of a strong social norm**, and the default choice is reinforced by our natural tendency to procrastinate (McAuley, 2008).

Incorrect information processing

Other biases have also been identified that involve our tendency to process information incorrectly. For example, people draw incorrect inferences, focus on unimportant but salient data, are distracted by too much information and choice-overload, may over-deliberate and otherwise misuse information (de Meza *et al*. 2008).

Using mental frames or 'anchors'

Another kind of general behavioural bias relates to our tendency to be **overly influenced by the way in which a problem is presented to us.** This common tendency involves us relying too heavily on one piece of information when decision-making and **using this as an unconscious "anchor" or frame to guide our thinking processes**. People tend to systematically reverse their preference when the same problem is presented to them in different ways due to positive or negative framing effects.[30] This is used pervasively in marketing where we are given an 'original price' (eg $100) that becomes an anchor point on which to assess the final 'sale price' (eg $70, 'saving' us $30) or when a far more expensive item with the same function is placed in close proximity to the target sales item. Anchoring is also used by investors, who latch onto unrealistic anchor points, which are relative rather than objective points, to assess the value of their investments (Abey & Ford, 2008).

Myopia, procrastination and decision-making

Behavioural economics has also demonstrated how *our perceptions and relationships with time* can affect decision-making due to the cause and effect nature of financial behaviour that impacts across the life course. Procrastination follows as a natural consequence of "present-biased" preferences (O'Donoghue and Rabin, 2001). **People tend to place much greater value on the present and the immediate future than on the longer-term future**. As demonstrated in the ANZ's 2005 survey of the causes of

financial difficulty, not surprisingly, "*living for today*" becomes a major cause of financial stress at a later stage.

This bias also leads to people acquiring high *short-term* discount rates but lower *long-term* discount rates – a phenomenon that is known as "**hyperbolic discounting**".[31] This leads to outcomes such as borrowing at high interest rates via credit cards while displaying unwillingness to engage in painful activities such as long term financial planning.[32] Hyperbolic thinking is illustrated with the scenario whereby people have to make a decision of whether they are given $50 *now* or $60 *in a month's time* (Gilbert, 2005). The majority of people opt for the *instant* payment. However, if people are asked whether they would choose to be given $50 in 12 months' time or $60 in 13 months, the majority opt for the *later* payment. This appears to act like the visual illusion of 'foreshortening'; the more distant we view a period of time, the more condensed it appears to be.

This important behavioural bias can lead to "myopic loss-aversion" whereby investors treat the long-term as a series of 'short-terms', with decisions framed with this perspective in mind (Abey and Ford, 2008). However, in decreasing the time-horizon in this way, the risk of higher risk investments is actually *increased*. In order to 'iron out' the fluctuations that naturally occur in the market, a far longer timeframe of 25-30 years is required.

How our emotions impact on financial behaviour

These behavioural biases identified by the field of behavioural economics have primarily focused on cognitive processes that impede our ability to reason in a wholly logical manner. The literature has also discussed how these decision-making processes, such as risk-taking, are also influenced by **emotional and affective dimensions** and **levels of self-confidence**.

Positive and arousing emotional states such as excitement **induce people to take more risk**, and to be more confident in their ability to evaluate available investment options.[33] **Negative emotions**, such as anxiety, have the opposite effects. With the aim of self-preservation, our beliefs are updated in a way that helps us maintain positive affect and avoid negative affect. This may require us **to ignore new information that is at odds with our earlier decisions**. Characteristics of markets, economic policies or organization design that have an impact on emotional responses may therefore influence people's decision-making and effect outcomes.

Risk-taking patterns highlight the important link between our other personal behaviours and our financial behaviour (Abey and Ford, 2008). For example, the inclination for young men to take higher risks than their female counterparts is largely due to **over-confidence**. The literature in risk-taking behavior also reports several other well-established findings regarding demographic characteristics beyond gender that may relate to psychosocial traits such as self-confidence, as follows:[34]

- **Age**: younger people are more inclined to be risk-seeking than older people;
- **Marital status**: people who are single tend to make riskier decisions than those who are married;

- **Level of education**: people with higher levels of education display a *greater* tendency to take risks;
- **Financial knowledge**: people who believe they have more knowledge of risk and risky situations tend to undertake greater financial risks.

In the next section, we will move from the level of financial decision-making to consider the role of our underlying attitudes and value systems around money and wealth creation and the role that money plays in our lives and how this can influence our overall sense of wellbeing and happiness.

Part 3. Our relationship with money and perceptions of happiness

We have seen how our financial behaviours and rational decision-making may be impeded by behavioural biases. In addition to these habits of thinking and responding, other critical influences that impact on our financial wellbeing across our lives, our **attitude to money** and the **nature of our relationship with it**, can also significantly influence our overall sense of well-being and quality of life.

Psychologists and sociologists have explored the **underlying determinants of happiness, subjective wellbeing and quality of life** over the last few decades. More recently, this issue has been revisited within the field of economics, with an interdisciplinary approach adopted to chart the complex relationship between a person's income and subjective sense of well-being – what is known as '**the economics of happiness**'.[35]

This body of literature provides some valuable insights into potential contributing factors and in this section, selected key concepts and findings will be discussed. This will provide a context to later consider how such factors may be addressed in creating more integrated responses to financial literacy.

The complex relationship between money and happiness

A key question in respect to our relationship with money has been whether having more wealth increases our level of happiness and life satisfaction, and if so, in what circumstances does this occur and why?[36]

Most researchers (Bruni and Porta, 2005) are now in agreement that at a single point in time, in a given country, **individuals at the *lower* end of the income scale tend to report lower levels of happiness,** or what is often referred to as 'subjective well-being' (SWB).[37] Using data from the World Values Survey (WVS), researchers have also found that, on average, people living in richer countries experience higher levels of subjective well-being than those living in countries in which income is below US$15,000 per head and people are nearer the absolute breadline.[38] Similarly, longitudinal findings also indicate that in *developing countries* like India, Mexico, and the Philippines, overall levels of well-being have grown as income levels have risen.[39]

However, these positive effects on well-being of increased wealth **tend to drop off as we move up the income scale**. For individuals who are not living on the breadline, an increase in wealth has only marginal effects on self-reported levels of happiness. At a national level, if a more affluent country increases its overall per capita income over time, the well-being of the nation as a whole is *unlikely* to significantly increase.[40]

Why doesn't money buy happiness?

In response to these findings, there is a growing interest by economists to identify **the psychosocial factors that may mitigate the direct positive relationship between**

income and happiness. This has resulted in two complementary theoretical explanations proposed in the literature, as follows:[41]

1. A psychological theory of adaptation – a set point of positive emotion

This theory is based on the notion that each individual is thought to have a **set point of positive emotion** that is determined by innate personality traits and temperament. While life events such as marriage, loss of a job, and injury may deflect a person above or below this set point, over time, the person will tend to return to the initial baseline as the positive or negative effects of external stimuli wear off. This process is known as '**hedonic adaptation**'.[42]

The metaphor of a **treadmill** is used to describe these kinds of effects, where, despite the fact we are running forwards, we remain in roughly the same place in terms of our overall sense of happiness. An important distinction has been made between two types of treadmill effect. The ***hedonic*** treadmill effect depends on our natural tendency to return to our set point as effects wear off. The ***satisfaction*** treadmill, however, depends on our **rising aspirations** that are never fully satisfied. This works in such a way that **even when one's objective wellbeing improves, one's subjective sense of happiness remains constant**. Money has diminishing returns; as a person's income increases, they may be induced to seek ever more intense pleasures through consumption in order to maintain the same level of satisfaction.[43]

2. The relative consumption theory – keeping up with the Joneses

The relative consumption theory is equally significant in explaining why additional income does not necessarily result in higher levels of happiness. This is about 'keeping up with the Joneses'. People draw satisfaction from their own level of consumption **in relation to the level of other people's consumption** (Duesenberry. 1949). In other words, our satisfaction is more influenced by our ***relative*** **level of income rather than the *absolute* level**. This can also be seen as a treadmill effect, but one that is *socially* driven.[44]

Material growth also tends to intensify what is known as '**positional competition**', which is competition for a higher place within a hierarchy. What this amounts to is a 'zero-sum game' - in order for someone to win, someone must lose. An example of this would be someone choosing to spend more on a suit for an interview to be in a better position of landing a job. Yet when *all* the candidates spend more on higher quality clothes, the results tend to be mutually offsetting.[45]

In other words, as 'creatures of comparison', prosperity next door makes us dissatisfied – it is relative income that matters: when everyone in a society gets wealthier, average well-being stays the same (Oswald, 2006). This can go part of the way in explaining why the overall economic growth in OECD countries over the last 50 years has *not* resulted in reported increases in subjective well-being (Layard, 2005).

This can also impact on our physical as well as psychological health. There is now a large volume of evidence that shows the most widespread kinds of stress in modern societies come from **our anxieties about how others see us, and our self-doubts and social insecurities.** These are experienced as threats to our self-esteem or social

status, known as "social evaluative threats", where others can judge our performance negatively.[46]

Getting off the treadmill: The positive integration of wellbeing and wealth

The economics of happiness has not explicitly addressed whether treadmill-type effects can be neutralized and, if so, by what means. We could hypothesize that some form of **psychosocial '*counter*-strategy' is required, to neutralize or at least reduce the negative aspects of these treadmill effects.**

The extent to which our set point of happiness is genetically 'hard-wired' is still contested, but it appears that **around 40% of the factors that determine levels of happiness are potentially under our control.**[47] These relate to our attitudinal and behavioural tendencies and capacities, which can potentially be developed or changed.

Minimizing the treadmill's effects might involve the development of life skills relating to self-efficacy, self-management, and critical thinking, along with other mechanisms for attitudinal and behavioural change in respect to how people think about money and how it functions in their lives. It also involves more awareness of just what it means to be happy and how this is achieved independent of consumption.

The field of **positive psychology**[48] offers more insights into different ways of viewing happiness and enhancing well-being and psychosocial capacity.

What does it mean to be happy?

The question about what constitutes happiness and wellbeing in our lives has been re-visited by contemporary thinkers, but can also be traced far back to classical philosophy.[49] Fundamentally, two different aspects are explored that are better understood as *complementary* perspectives to provide a fuller picture of our experience.[50]

Happiness as positive affect and the pursuit of pleasure (hedonic happiness)

The first aspect of happiness relates to **feelings of pleasure and positive emotion**, which is individualistic and transient. Seligman (2002), a leading exponent of positive psychology, refers to this as the positive and momentary emotions that create the "pleasant life". This includes both physical and cognitive effects – eg rapture, bliss, mirth, glee, amusement, harmony, relaxation, etc. However, as our neurologic make up requires novel stimuli, these pleasures are only ever finite and the hedonic treadmill effect will eventually return us to our normal baseline. This aspect of happiness, being largely hereditary, can be shifted only marginally through external circumstances and interventions.

Happiness as self-actualization and the pursuit of a meaningful life (eudaimonic happiness)

The second construction of happiness is that well-being consists of more than just subjective happiness and positive emotions: it lies in **the actualization of human potential**. This involves creative fulfilment and meaningful connections in our lives, and places emphasis on the **non-material pursuits and intrinsic motivations** that are experienced as people function and interact within their social worlds. Seligman (2002)

refers to this as '**authentic happiness'** and one of the main goals of positive psychology is to identify ways in which this can be brought about in individuals, groups and institutions.

Authentic happiness - creating flow, purpose and meaning in our lives and building emotional resilience

In the framework of positive psychology, 'authentic happiness' operates at two levels. The first is the level of *gratification* and this relates to the employment of our skills to evoke a feeling of 'flow' from deep involvement, interest and a sense of competence and self-efficacy in what we are doing.[51] The second level comes from identifying and cultivating our "**signature strengths**".[52] Through endeavouring to use these traits in every day work, love, play and parenting, etc, with a clear sense of our purpose and overall meaning in life, we can create the peak experiences that Maslow referred to as "self-actualisation".[53] Authentic happiness also depends on experiencing feelings of **hope and optimism**, and having **a higher level of pro-social activity** and good quality relationships with others.[54] Two recent studies have found that money spent on *other people* (rather than on ourselves), and on purchasing *experiences* (rather than on 'things') provide more substantial feelings of well-being.[55]

Seligman (2002) proposes that such positive experiences broaden our creative, intellectual, physical and social resources and build **psychological capital** as an *investment* for the future. In other words, in contrast to seeking positive affect and desire-fulfilment through *consumption*, authentic experiences can create a 'buffer' against future misfortune and psychological disorders. The development of psychosocial capital is **a key to building emotional resilience**, and this helps us to **resist social pressures and distractions** that might undermine our psychological and financial well-being.[56] An example of this is the ability to distinguish between what we *want* and what we really *need*, and for money to function as *legal* rather than as *emotional* tender in our lives.

Balancing wealth creation with well-being

Abey and Ford (2008) address the complex issue of balancing wealth creation with personal well-being, bringing together financial expertise and insights drawn from the fields of positive psychology and behavioural economics. From their perspective, happiness is defined as "**people's ability to see money as a means to an end to achieve goals consistent with personal values**." This is in contrast to money as an end in itself. Personal financial planning involves **looking inward to uncover and define our personal values and goals and making choices that are based on them**. Our financial plans are best developed for ourselves, not for our money. This involves deploying financial and saving strategies that use and acquire our resources in a way that is consistent with our values and achieving our goals.

The implications for socially disadvantaged families

There are several important consequences of these findings for individuals and families who are **socially and financially disadvantaged**. The evidence from the research on economics and happiness clearly indicates that **for people at the lowest end of the**

income scale, who are closest to the breadline, money really *does* make a difference to reported levels of subjective well-being. If income is increased at this level, then reported increases in perceptions of well-being tend to follow, as hardship and basic 'survival' anxieties are alleviated and related outcomes improve. Beyond this point though, it is other factors, not wealth, that will largely influence people's level of happiness and some of these are under the individual's control.

In the quality of life and capabilities framework, poverty is seen as a lack of access to the **functional capabilities that allow people to *do* well and *be* well in their lives**, rather than solely as a lack of income.[57] For families experiencing significant social disadvantage, barriers to such fundamental opportunities will inevitably limit the potential for individuals to experience higher levels of well-being and self-actualization across their lives. An example of this is access to vocational opportunities that can provide a sense of self-efficacy, challenge, purpose and interest to create the experience of "flow" (Csikszentmihalyi, 1990).[58]

In an affluent country like Australia, such a lack of opportunity for participation will be all the more likely **to exaggerate the relative income effects**. Our social position influences our sense of identity and social status, which can impact on wellbeing through low self esteem, shame, disrespect and negative comparison. Shame and humiliation are key social dimensions of poverty and the '**ability to go about without shame**' is a basic capability or freedom.[59] Recent international research now provides empirical evidence for **the major psychological and emotional impacts of social inequality** with negative consequences in terms of the quality of family relationships, care of children, personal and community efficacy and productivity, etc.[60]

This highlights the critical importance of **relative financial equality** to increase the sense of wellbeing in a nation, rather than economic growth *per se*. This is particularly relevant in the current economic climate and the tendency in Australia towards overt consumerism, high levels of personal debt and a dysfunctional relationship with money that results in a failure to distinguish between what we *want* and what we *need*.[61] For families and children who are financially disadvantaged, such cultural attitudes and behaviours towards consumption may be all the more problematic. As the 'happiness treadmills' speed up, those with fewer resources are increasingly left behind.

Together with broader cultural and socio-economic changes, there is also a need for the development of life skills and capacities at an individual level to build up the **psychological resilience and efficacy** to deal with these competing pressures and motivations in relation to money, and potentially to overcome the behavioural biases that lead to poor financial decision-making. In the next section we will explore how such attitudes and behaviors may be shaped by both our immediate and our broader social worlds and relationships, and also consider how behaviours can be changed.

Part 4. How our attitudes, aspirations and behaviours are formed

In order to build financial literacy skills that effectively address the critical attitudinal and behavioural aspects that have been identified in the literature, as well as contribute to money for wellbeing, we need to consider **how individuals form such attitudes, aspirations and behaviours in their social settings**. This includes an understanding of how attitudes towards money and patterns of financial behaviour are transferred across families and peer groups, and how these tendencies may be transformed over time.

In this section we will firstly discuss a general framework for these processes before applying this model more specifically to the context of personal finance.

How cultural capital is developed

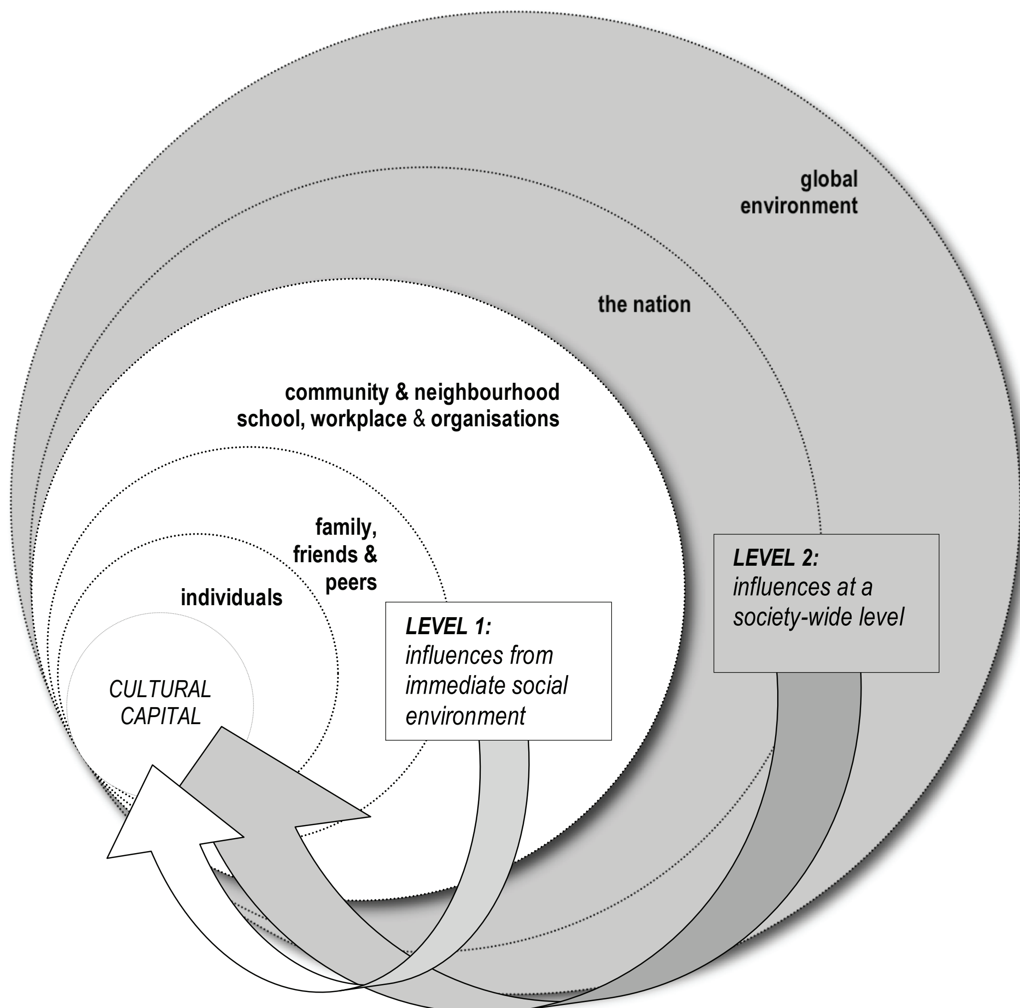

Figure 4.1 What influences cultural capital[62]

A primary influence on the development of individual attitudes and behaviours is **cultural capital**.[63] Cultural capital refers to **the attitudes, values, aspirations and sense of self-efficacy** that are collectively embodied within individuals.[64] It is developed by both **our interaction with the immediate environment around us** and by **the broader society-wide influences acting upon us**. Together these form the sense of identity an individual develops, the attitudes and values they hold and an awareness of the social norms of the community in which they live.[65]

The levels of influence from our immediate social and society-wide networks impact on us in different ways. As shown in *Figure 4.1,* our local environment is always situated within a broader context of national and global culture. It is more helpful to see these as embedded or 'nested' rather than as completely separate areas of influence.[66]

Our emphasis will be on **the first of these levels to consider the family and community context**. We will also identify some of the factors within the broader setting that help to shape cultural capital.

Level 1: Influences from our immediate social environment

The local influences can be usefully divided into several categories:

a. Family, friends and peers

b. Community and neighbourhood

c. School, workplace and organisations

a. Influences from our family, friends and peers

The **primary influence on the formation of our attitudes, values, aspirations and behaviours is our families**, and most importantly our parents or other primary caregivers in the home setting. A volume of research provides evidence of the critical influence of the family in shaping our attitudes, values systems, aspirations and expectations for achievement.[67] A recent study in the UK indicates that **children's educational aspirations are strongly correlated with those of their parents**, supporting previous findings from Australia and overseas**.**[68] The level of parental aspiration was seen to exert a strong influence on students' own motivations to achieve positive outcomes.[69] Research in the US has also indicated that in disadvantaged family settings, **parents' own sense of efficacy can provide a buffer** against the more negative consequences of disadvantage and can positively influence their adolescents' educational trajectories.[70] Conversely, a general lack of optimism and expectations for attainment can be transferred to children, perpetuating the cycle of disadvantage.

Influences, however, shift around the 11-14 age range as the effect of **friends, peers and role models increases in importance**, peaking at around the age of 15.[71] At this stage, attitudes and behaviours of a young person's peer group can have either positive or negative effects on their aspirations and educational performance. These peer effects are explained in part by **social identity theory,** whereby people will

behave in a way that is consistent with the norms of a peer group if they believe that group membership is important to their own self-concept or sense of self.[72] As young people experiment with and develop their sense of self-identity, such peer alignment and group membership becomes absolutely critical. At this stage, aspirations also tend to develop from idealistic to more realistic ideas.[73] This is **a critical age as young people form solid aspirations that inform their long-term future life choices and outcomes**.

b. Influences from our communities and neighbourhoods

The local community and neighbourhood also play an important role in determining attitudes and building cultural capital.[74] These are sometimes referred to as '**neighbourhood effects**' and can impact on personal attainment as a result of entrenched attitudes and values shared and transferred within the local environment. Research indicates that the likelihood of someone living in social housing and being employed is significantly lower than in other housing situations.[75] The type of neighbourhood in which a student lives is also significantly associated with their outcomes at school.

Although general research findings indicate that young people are less likely to develop ambitious, achievable aspirations in areas with higher levels of deprivation, a UK study draws attention to the important finding that **not all deprived communities are the same** in this regard.[76] Young people in some very deprived communities have higher aspirations than would be expected. Conversely, young people in some communities with less deprivation were found to have lower aspirations than was expected. A closer examination of these social contexts reveals underlying neighborhood features that act as barriers or enablers to building positive aspirations. These are, in part, associated with the type of **social capital** within a local neighborhood.[77]

Generally speaking, the UK study found that communities associated with **lower aspirations** tended to have **high levels of bonding social capital** but **lower levels of bridging social capital**. These tended to be somewhat isolated and close knit communities with more long-term deprivation. While the strong local networks associated with bonding social capital can be a source of empowerment, strength and support, they can also limit individuals. Such networks may encourage individuals to **avoid experiences that might build other forms of social capital and lead to positive change** (Raphael-Reed *et al.*, 2007). For young people, an absence of a broader and more diverse network of contacts outside the immediate neighbourhood can restrict their horizons and create barriers to accessing valuable sources of inspiration, information and opportunity.[78]

c. Influences from our schools, workplaces and organisations

Within the community, schools are also an important influence on the formation of positive attitudes, values, aspirations and a sense of self-efficacy in young people and have been shown to account for 8-15% of differences in attainment (Lupton, 2006). Firstly, in terms of role models and mentors, teachers' expectations are known to be a key determinant of school effectiveness and student progress (Feinstein *et al.*, 2004). Secondly, the process of education itself, mediated through the design of the

curriculum and the methodological approach, is also a critical tool in the formation of value and belief systems. This can enable young people to think critically and broadly and to develop their sense of personal efficacy and community cohesion (PMSU, 2008).

There are many examples of innovative programs that have shown the potential for schools to lessen the impact of social disadvantage on students' aspirations for attainment by recalibrating neighbourhood expectations. An interesting example is the *Knowledge is Power Program* (KIPP) in the US - a free school education program that sets very high expectations for academic achievement and behaviour regardless of students' socio-economic or cultural background.[79] The intention is for students, parents, teachers, and staff to **jointly create and reinforce a culture of achievement and support** and this is driven by a range of formal and informal rewards and consequences for academic performance and behaviour.

Interactions that occur within **our workplaces and other organisations** also have an influence on our attitudes and values, with different sectors and industries embodying different forms of cultural capital. Workplaces and organisations beyond our immediate local community are also potential settings for building bridging social capital through increasing our access to more diverse forms of knowledge and different value systems.

Level 2: Influences at a society-wide level

As shown in *Figure 4.1*, our immediate social networks sit within far larger socio-cultural environments. We are also influenced by cultural values, social norms and sets of beliefs that exist at **a macro or national level**. What is more, at this 'macro-level', **globalised influences** increasingly come into play. This includes exposure to mass marketing and media, and other "whole of society" influences such as **social, economic and technological factors**, **innovation and thought leadership**. Cultural, religious, political and legal heritage are also transferred as cultural capital over time, through rituals, oral and written texts, artistic works, and political and legal systems.

Cultural capital, influenced by these multiple factors, shapes our own attitudes, values, aspirations and sense of self-efficacy. Ultimately, this directs our own patterns of behaviour. However, **our cultural capital is constantly evolving** in response to these multi-level influences in our social environment, and through our own behaviour in the world. The process is hence an ***ecological* one**.

How cultural capital influences our attitudes and behaviours

The Prime Minister's Strategy Unit (PMSU) in the UK provides a useful diagram to describe this ecological and cyclical process, in relatively simple terms. There are several stages in this process, as set out in *Figure 4.2*.

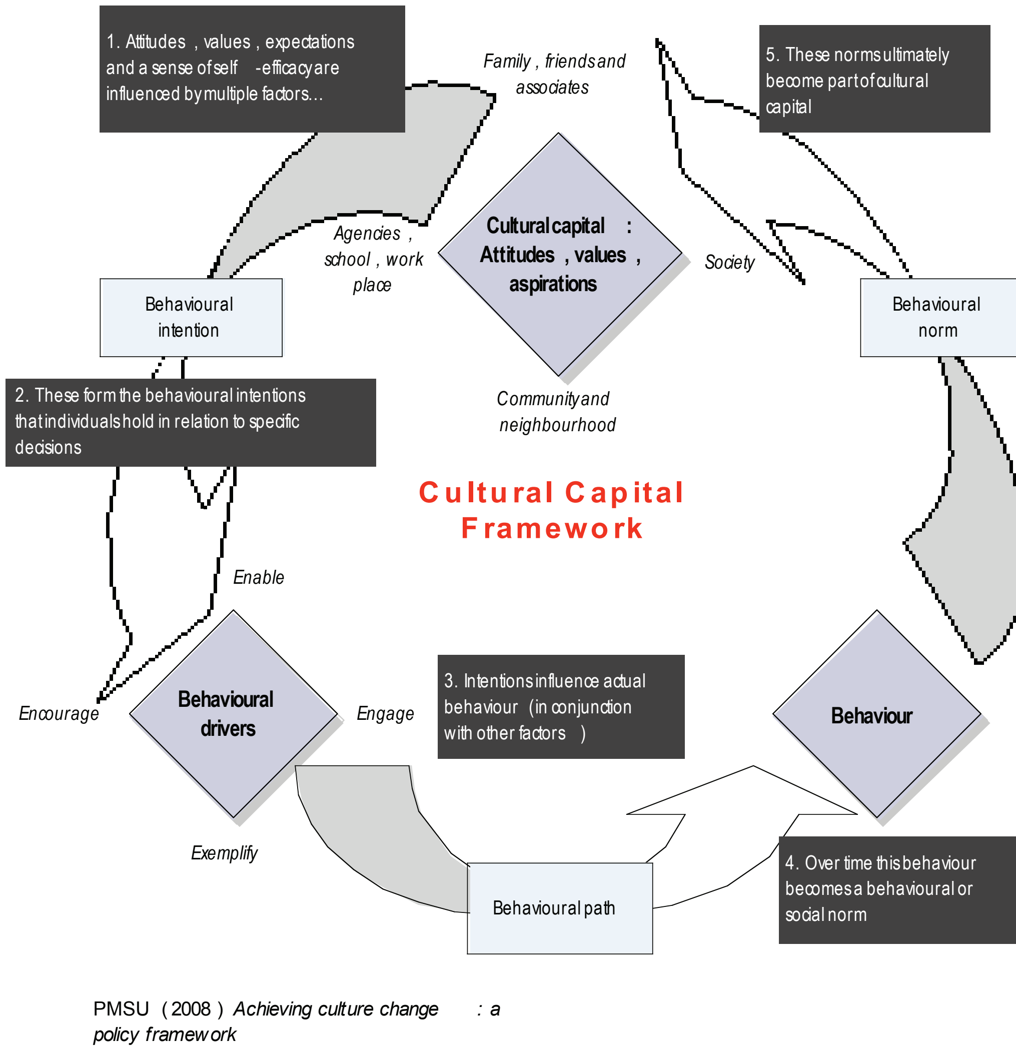

Figure 4.2. The cycle from social attitudes to social behaviours

1. The cycle starts with cultural capital as our 'bank' of collective attitudes, values, aspirations and sense of self-efficacy. This is influenced by multiple factors from our immediate social settings and society in general.
2. These attitudes, values, aspirations and our sense of self-efficacy help to form our personal **behavioural intentions** in relation to specific decisions and activities.[80]
3. These intentions then **influence our actual behaviour**, along with other circumstantial factors and competing pressures such as incentives, legislation, and regulation.
4. Over time, these **behaviours become** '**normalised**' through habitual use to become **behavioural or social norms** that are sanctioned by the community.[81] This creates a feedback loop where behaviours influence our attitudes and value systems.
5. Ultimately, these social norms become part of the **cultural capital** held by different groups and societies.

What other key factors influence our actual behaviour?

There is an important distinction in this model between our *behavioural intentions* and our *actual behaviour*. Firstly, our actual behaviour in a given situation is affected by how we respond to ***external*** **incentives, legislation, regulation and barriers** that are present. Secondly, ***internal*** **cognitive and emotional processes** also interact with our behavioural intentions. These processes include the **behavioural biases** that impact on how we make mental predictions about the potential risks and rewards of our actions.[82]

The tension that can result between what we believe we *should* do or hope to do and what we *are actually drawn to doing* or are pressured into doing is sometimes referred to as "**cognitive dissonance**." **Aligning our attitudes, values and expectations on one hand and our behaviour on the other is hence an important aspect of behaviour change**, along with recognition of the need to 'neutralise' behavioural biases that undermine the process of rational decision-making.

The literature suggests that our ability to follow through on our intentions and make reasoned decisions also depends on **positive psychological attributes** such as self-efficacy, self-management and resilience, along with critical thinking and problem-solving skills.

The development of financial attitudes, aspirations and behaviours

This cycle back and forth between the attitudes that we hold and the behaviours that we exhibit is particularly relevant to the context of personal finance. The general model described above can hence be applied to the more specific context of money management and financial attainment, as displayed in *Figure 4.3*.

Through our interactions with our immediate social networks and broader social worlds, our attitudes to money and spending, our aspirations towards attainment and our sense of self-efficacy around money management are formed. This then influences our **behavioural intentions** in relation to money, along with the relevant technical knowledge and skills we have developed. Our actual **financial behaviours** are the result of these behavioural intentions as they interact with our behavioural biases and emotional responses, our psychosocial capacity and competing *external* pressures and motivations.

Family influences on social money management practices

As we saw earlier, *the family* is a major influence on the development of an individual's cultural capital. Parental attitudes, values and behaviours around money will impact on children's future aspirations and financial behaviours. Children who grow up in more affluent families where allowances are provided with "no strings attached" may end up with no appreciation of the true value of money and be unable to effectively manage their resources responsibly later in their lives. Parents are better advised to help a child become financially literate by *including* them in the family finances, teaching them where money comes from and how it flows through the household, rather than shielding them from realities.[83]

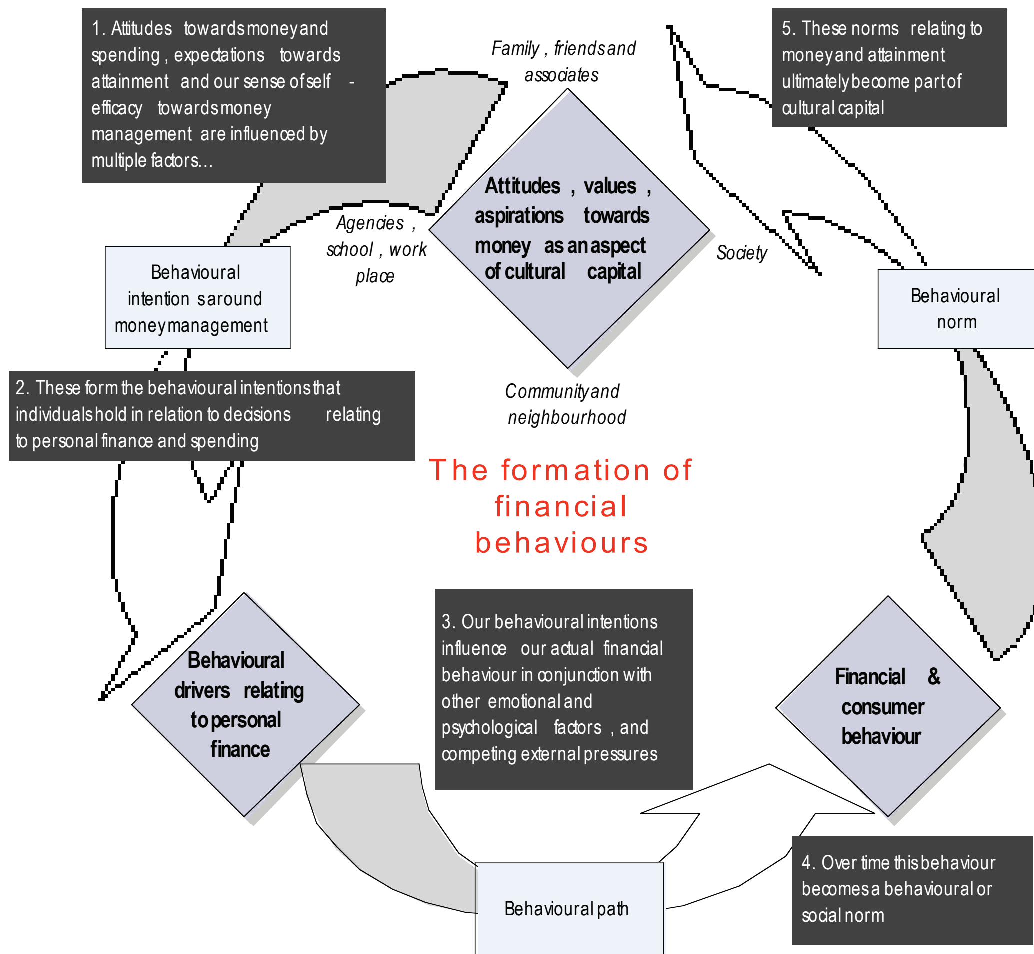

Figure 4.3 The formation of financial behaviours across social networks

However, for families with lower levels of financial literacy, both in terms of technical capacities and psychosocial attributes that positively support money management, other mechanisms and support may be required beyond the immediate family setting to develop these capacities in young people.

Cultural influences on social money management practices

Another illustration of the critical influence of our more immediate social world on attitudes, values and behaviours is how money functions **in different cultural groups and settings**. In communities that have high levels of *bonding* social capital but lower levels of *bridging* social capital, localised social norms are more likely to determine social practices around money and aspirations for financial attainment.

People's social obligations to kin and community are often paramount. The tendency in many Indigenous communities is for money and goods such as vehicles **to be shared or pooled within an extended family, kinship group or household cluster** (Singh et al. 2005; 2006). However, one of the consequences of sharing money is that it can **inhibit the potential for *individual* saving** as this can seen as a '*self*-interested' act that negatively impacts on social obligation.[84]

Despite such cultural variations, money is usually studied as a medium for payments and transfers rather than for gifts. It is seen to be individually owned, with the married couple as the key financial unit for the management and control of domestic money.[85] **Such assumptions about money can marginalize cultural concepts that are *not* part of the mainstream Australian perspective of money.**

One of the implications of cultural variation on financial education is that mainstream initiatives, which are predominantly based on the principle of enhancing *personal* spending and saving habits, may be less effective due to tensions that result from competing value systems and motivations. Such contributing factors need to be taken into consideration when designing **place-based responses and tailored financial products** to ensure successful outcomes.

Societal influences on social money management practices

An example of how this model works at **a broader societal level** is the ubiquitous use of high-interest credit cards and personal loans in Australia over the last decade.[86] Widespread credit card debt is often the result of what might have been seen as 'delinquent' financial behaviour prior to this period. Over time in Australia and supported by mass marketing and ready access to financial products and opportunities for use, **this financial behaviour has become normalised and hence viewed as an acceptable and institutionally sanctioned means of sustaining lifestyle needs**.

During national economic downturns, and with the growing realisation that such a burden of personal debt is ill-advised and unsustainable, **new social norms and revised attitudes to credit debt are likely to emerge, and we could predict different spending and saving behaviours** for individuals, families and small businesses.

This cyclical model that describes the formation of attitudes, intentions and financial behaviours provides a framework for thinking about the underlying factors in the development of financial capability. In the next section, we will now look at models that describe how **behaviours can be changed** to support more positive social outcomes.

Part 5. Changing behaviours

The evidence from the broad body of literature reviewed suggests that **attitudinal and behavioural aspects of money-management are indeed critical to successful outcomes**. The review also highlights the fact that components that address these *psychosocial* factors have been lacking or, at best, peripheral in the majority of financial education initiatives, which have focused predominantly on filling perceived gaps in practical knowledge. And as noted earlier, while such technical information and related skills are certainly necessary for financial aptitude, they are not sufficient to bring about effective long-term outcomes in the majority of people – ones that allow money to function as a resource for wellbeing.[87]

In order to create more integrated responses to building financial literacy in its broadest sense for young people, what approaches could potentially be drawn on **to inform the development of these missing 'psychosocial' components**?

The field of public health has long recognised that **knowledge alone is rarely enough to bring about the behaviours that promote positive health outcomes**. In this domain, sociological and psychological models of behaviour have been heavily drawn on to create behaviour change interventions and build health literacy. These are hence fruitful to draw on to inform our inquiry.

In this section we will look at a key **model of behaviour change at the level of the individual**, identifying the **critical enabling factors** discussed in the literature for successful outcomes. We will then discuss several approaches to behaviour modification or change that adopt strategies and techniques of relevance. In the next section, we will discuss a different approach that aims to develop the psychosocial skills and capacities that can engender and sustain the adoption of positive behaviours in individuals.

The stages and determinants of behaviour change

Considerable theoretical attention has been given to models of behaviour change at the level of the individual.[88] The evidence suggests that **behaviour change occurs in stages, with a *cyclical* rather than a *linear* movement**. One model in particular is widely cited, forming the basic framework for a diverse range of behaviour change initiatives over the last two decades.[89] This model generally proposes **five distinct stages** through which people move in a spiral pattern as shown in *Figure 5.1.*

Certain conditions need to be in place for the person to progress to the next stage. For example, the *contemplation stage* requires the person to be **aware of the problem and the need to change**. The *preparation stage* may then require some practical and/or personal **skill development** to support the change in behaviour._With a staged model of change, **different interventions can therefore be selected appropriately to match each phase**. Strategies to 'raise awareness' can assist movement from pre-contemplation to contemplation. Likewise, to help a person move from contemplating change to preparation and action, access to resources for skill development and other incentives can be provided.

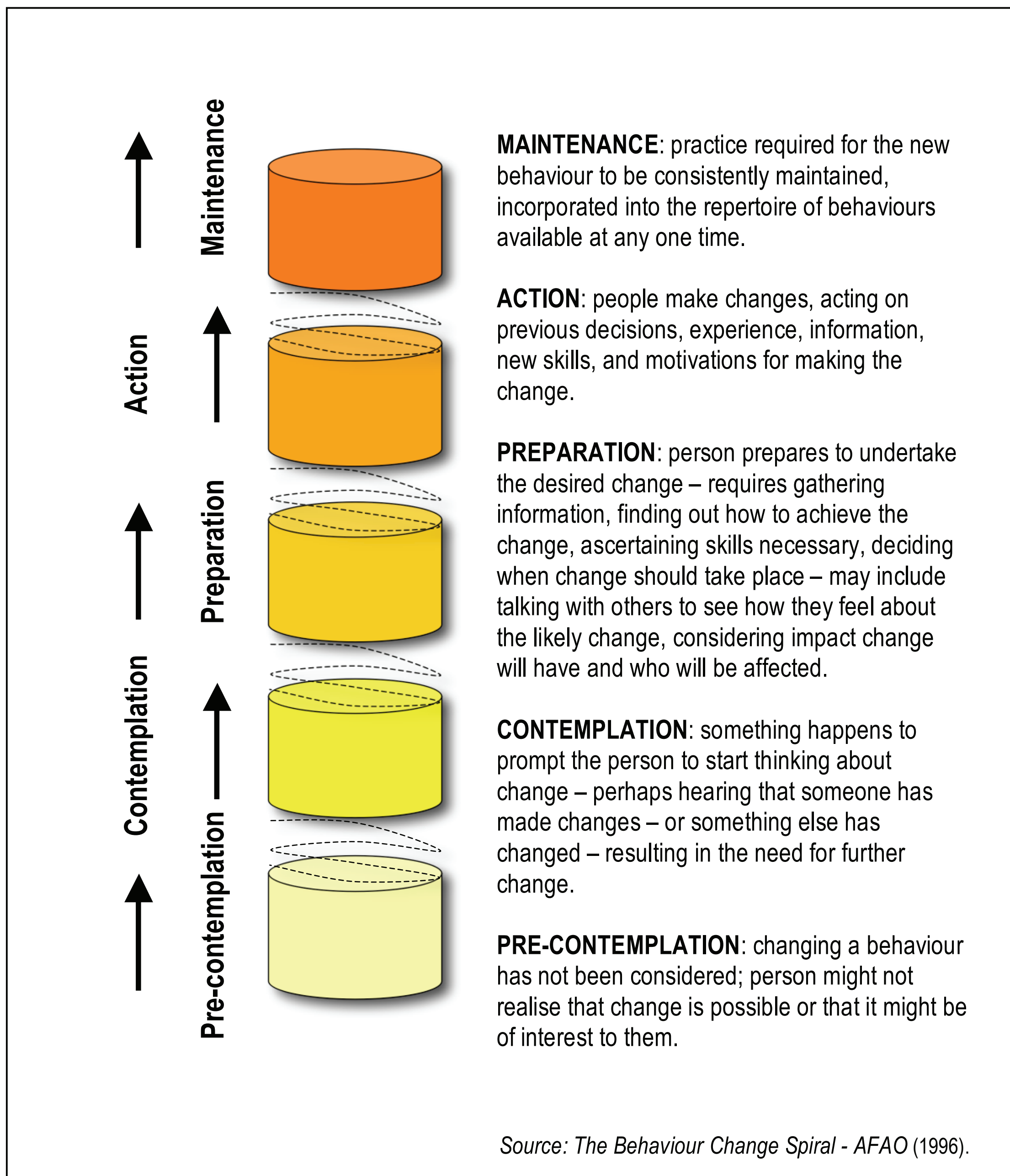

Figure 5.1. Stages of change

What are the critical determinants of behaviour change?

Whether or not such processes of change will be successful for a person will be determined by a range of internal and external factors. Major theorists of human behaviour jointly identified eight key **determinants of behavioural change** as follows, providing a 'checklist' of critical success factors that can enable behaviour change:[90]

1. **Behavioural intentions:** The person has formed a strong positive intention (or made a commitment) to perform the behaviour.

2. **Environmental barriers:** There are no environmental barriers that make it impossible for the behaviour to occur.

3. **Skills**: The person has the skills necessary to perform the behaviour.

4. **Outcome expectancies/attitudes:** The person believes that the advantages outweigh the disadvantages of performing the behaviour.

5. **Social norms:** The person perceives more social pressure to perform the behaviour than to not perform the behaviour.

6. **Self-standards:** The person perceives that performance of the behaviour is consistent with his or her self-image or values.

7. **Emotional reactions:** The person's emotional reaction to performing the behaviour is more positive than negative.

8. **Self-efficacy:** The person perceives that he or she has the personal capabilities or self-efficacy to perform the behaviour under a number of different circumstances.

The first three factors are viewed as *necessary* for producing any behaviour. The remaining five factors are seen to be important *modifiers* that will influence the strength and direction of the person's intentions (Fishbein *et al*., 2001).

These critical success factors or 'determinants' are hence located either *outside of the individual* as characteristics of their social settings or located *within* the individual as attitudinal positions, personal capacities and inner resources. To varying degrees, these characteristics can predispose, facilitate, reinforce or sustain outcomes.

External factors as key determinants of change

An enabling or supportive environment, including a range of social, cultural, spiritual, legal and political features, may enable or impede social behaviours (Prochaska & DiClemente, 1992). In certain cultural contexts, these external factors may have a greater influence on human action than the positive effects of individual self-determination.[91] Access to resources or capital - human, material, financial, etc. - can also be critical in facilitating change. Approaches that have focused on behaviour change at the level of *the individual,* however, have tended **to downplay the significance of such underlying political, economic, social and cultural structures** (Boler and Aggleton, 2005).

Critical factors for success in initiatives that are aimed at the individual need to involve **broader external supports and behavioural drivers to encourage, enable, engage and exemplify behaviour change**.[92] This can be at the family or community level or at the broader level of society through policy, legislation or social marketing.

Inner capacities as key determinants of change

Characteristics such as **self-esteem and our sense of self-efficacy and autonomy** have been identified as critical enablers for positive adaptation in individuals.

Self-esteem refers to the general perception a person has about themselves in terms of their self-worth. **Self-efficacy**, closely related to self-esteem, refers to a person's belief that they can operate effectively within their social environment. It involves being confident that we can overcome barriers and perform tasks, and includes having a sense of purpose, persistence, anticipation and hopefulness in a bright future.[93]

Autonomy refers to the capacity for self-determination and critical participation. The latter is a person's ability to situate their life in a wider context, to critique it and, if necessary, to change it. Autonomy also takes in a person's capacity to be *inner directed* in regulating their behaviour and responses to others. Someone who has achieved a sense of autonomy will tend not to react impulsively to circumstances but can manage their responses reflectively and proactively with a sense of direction that they have chosen for themselves.[94]

Personal autonomy is closely related to the concept of '**locus of control**'.[95] This refers to the extent to which individuals believe that they can control events in their lives. Individuals with **a high *internal* locus of control** believe that events primarily result from their own behaviour. This can support behaviour change as such individuals are more likely to be able to control and transform their behaviours and to be more proactive in seeking the knowledge, skills and human resources to facilitate the process.

Self-esteem, self-efficacy and autonomy reinforce one another, **conferring resilience and protection from the effects of deprivation**.[96]

Resilience, another critical resource for enabling long term wellbeing in individuals and communities, refers to a collection of characteristics and conditions that act as positive counterparts to factors that contribute to vulnerability and crisis (Duncan & Magnuson, 2005). This continuum between potential vulnerability and resilience is shown in *Figure 5.2.*

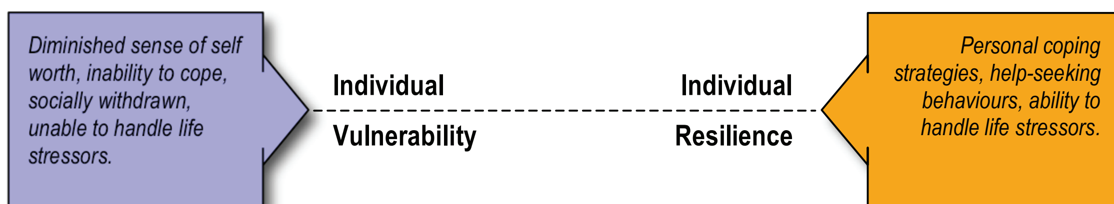

Figure 5.2. The continuum from vulnerability to resilience[97]

As an aspect of 'cultural capital', these psychosocial effects operate both at an *individual* and a *community* level. A person's capacity for self efficacy and resilience is

hence influenced by **whether or not the communities in which they interact are characterised by social resilience**.[98]

Some approaches to changing behaviour

A range of structured interventions for behaviour change have been based on 'stages of change' models and the range of related theoretical models, providing various strategies for removing perceived barriers to change and/or facilitating or reinforcing the key determinants identified above.[99] Several approaches are outlined below that offer some different techniques and strategies that can usefully be considered for the design of an integrated response to enhancing financial behaviours and building capability and potential.

Cognitive behaviour therapy

A key *therapeutic* approach that has been widely used for behaviour modification predominantly in young people and adults is "cognitive behaviour therapy" (CBT).[100] This approach focuses on the relationship between our attitudes and habits of thinking on the one hand, and our behaviour on the other. This helps people to recognise their beliefs about themselves, others and the world, and to **become aware of the *automatic* thinking processes** that result from these mental constructs. The aim is **to create new ways of relating and responding to the world**.

Techniques drawn from cognitive behavioural therapy may help people **to form more positive habits of financial decision-making by helping to neutralise the cognitive biases that can undermine rational thinking**. Whether such techniques and cognitive effects are transferable to the *financial* domain and can be maintained over time is not yet clear, highlighting the need for more research in this area (de Meza *et al.*, 2008). At a broader level, such techniques could be drawn on to help people to **reflect on their relationship with money and spending**, with the aim of modifying unhelpful tendencies and recalibrating the way that money functions in their lives.

Choice architecture and social marketing

In relation to *financial* behaviours, there is some degree of scepticism about the effectiveness of making people personally aware of their poor financial decision-making without providing **external motivations and structures that encourage better outcomes**.

One emerging approach that is relevant to this challenge is the concept of *'choice architecture'*.[101] This can be used by policymakers in communities, organisations and governments as **a strategy to mitigate predictably irrational and widespread behaviours by directing people towards more positive choices**. This is achieved by explicitly designing the 'choice context' to facilitate personal behavioural change and cultural change at a population level, but still maintaining a freedom of choice for individuals. A number of tools can be employed to achieve this:

1. *Setting default options:* This involves setting the preferred choice as the default choice and employing an 'opt-out' design.

2. *Offering self-contracts:* This involves offering people the option to voluntarily limit future options via a binding 'self-contract' as **a commitment device** to commit to a course of action. These can ensure the preferences we decide on then actually determine our behaviour.
3. *Clearer presentation of information:* This involves the clearer organisation of complex information and greater transparency of hidden risks and conditions, etc.
4. *Influencing social norms:* This involves drawing attention to positive social norms thereby unconsciously influencing behaviour change through social pressures to conform.

These strategies are seen to be particularly relevant in areas where: i. systematically poor decision-making causes serious problems; ii. choice is unusually complicated or intentionally structured to *increase* bias; and iii. where individuals may lack the *inner* resources (such as self-control) to achieve their goals (Fuller, 2009).

An approach from public health that takes these related factors into consideration is '**social marketing'**.[102] This can also be seen as a form of 'choice architecture' in that it aims to direct people towards particular choices and create the conditions that facilitate the evolution of social norms.

Drawing on commercial marketing principles, this approach situates people as the "consumer" who will potentially "buy into" a particular idea. The changes people may need to make to improve their social outcomes often *come at a price*. In order to ensure effective responses, program designers need to understand **the personal cost of exchanging one behaviour for another**. The emphasis is hence on creating positive expectations overall for the consumer. If an individual consumer won't '*buy in*' for the long term, then the program is not sustainable for them.

Concepts from choice architecture, including social marketing strategies, can usefully be applied to the context of personal money management and can be thought of as a form of *'norm manipulation'*. People can be directed towards a particular action such as higher saving with the idea that some suitable financial rules of thumb would be inculcated as widely as possible (de Meza *et al.*, 2008). This has been borne out by the successes of the **ANZ *SaverPlus* program**,[103] a matched savings program that adopts a social marketing type approach to behaviour change.

An independent evaluation by RMIT University found that *SaverPlus* has the highest level of success of any international matched savings program, with 96% of participants meeting or exceeding their savings goals, and about 70% of past participants continuing to save the same amount or more 2-3 years after completing the program. ANZ has recently commissioned a study that is investigating the particular success factors of *Saver Plus* from a *behavioural* perspective. The findings from this ANZ study will provide further insights into how such initiatives **may help to mitigate inherent behavioural biases around financial decision-making**.

Another example is a scheme in the Philippines in which people voluntarily signed up to savings accounts from which money could *only be withdrawn once a threshold of savings had been reached* (Ashraf *et al*, 2006). The culture of savings changed in the sample population from 'time-inconsistent' to 'self-controlled' behaviour within one year, with savings increased by around 80%. Interestingly, in this scheme, monetary

incentives such as accumulated interest were *not* employed. The commitment device of the 'self-contract' appears to be the key driver for change.

A recent US study (Lusardi *et al.*, 2009) reports on the **specific methodologies employed in the successful application of a social marketing approach** to develop a financial planning aid to encourage new long-term saving behaviours in employees. This involved a progression from surveys to focus groups to in-depth interviews **to discern barriers to saving** in the target group, followed by the design of a response that aimed to overcome these barriers. The new planning aid was pre-tested with a sub-group of the target population and then modified to maximise effectiveness with the target population. From this, a 'customised' response was designed for other segments of their population.

Positive psychology

Rather than focusing predominantly on the specific behaviours that require change, another approach to behaviour change is **to facilitate the development of the positive psychosocial attributes** that can, *in themselves*, engender constructive attitudes, aspirations and behaviours across the life course. This is a key premise of positive psychology, an approach that emerged from a cognitive behavioural base.[104]

While these interventions are also interested in transforming how a person *thinks about their life*, the emphasis here is not on identifying deficits and pathologies. Rather, it is on emphasising **positive characteristics** and seeking to enhance these to allow people to flourish and build 'psychosocial capital'. One of the key components is to identify our 'signature strengths' and to endeavour to build these into our daily lives to create meaning and flow.

Positive psychology was discussed earlier in relation to the 'money/happiness' nexus. Concepts and techniques from this approach were potentially valuable **for helping people to work out what they really value and need in their lives and aligning their financial planning with these goals** (Abey and Ford, 2008).

In the next section, we will draw once more on the field of public health to discuss an *integrated* approach to building human capability. This framework also foregrounds the development of positive psychosocial skills and capacities to engender change but approaches this from an *educational* perspective. This can complement the psychological interventions discussed above and be readily applied to the context of financial literacy.

Part 6. A life skills-based approach to building capabilities and potential

Earlier in this paper, we noted that for money to function as a resource for personal wellbeing, financial literacy education needed to expand beyond the development of technical knowledge and skills specific to personal finance (eg budgeting, investment, consumer rights etc.). We argued that intersecting literacies such as numeracy, information literacy and digital literacy were essential co-requisites to achieving financial capability. We then proposed that **the development of certain *non*-technical life skills or 'psychosocial skills' might also underpin successful financial education initiatives**, drawing on recent findings from Australia and the UK that highlighted the critical role of *psychological* factors in such endeavours. These three intersecting components of financial literacy in this broader sense are displayed in *Figure 6.1*.

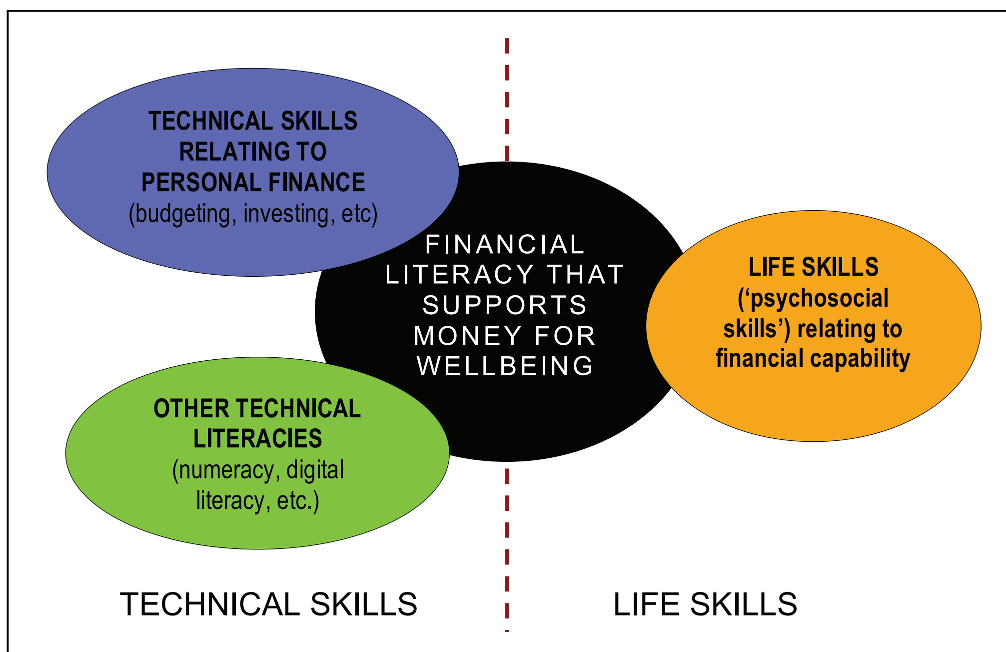

Fig 6.1 An expanded model of financial literacy to support money for wellbeing

The importance of such 'life skills' has now been strongly supported by evidence from the literature on behaviour change. Along with external determinants, **psychosocial skills and capacities are seen to be critical factors that can enable the adoption and integration of positive behaviours**. Such life skills can also facilitate the integration of the technical knowledge and skills that allow us to build our full capability and potential in various domains. This perspective underpins the definition of health literacy provided by the World Health Organisation (WHO) as *"the cognitive and social*

skills which determine the motivation and ability of individuals to gain access to, understand and use information in ways which promote and maintain good health."[105]

This reflects the view now commonly held in the public health domain that people cannot achieve their fullest health potential unless they are able *to take control of the social determinants of their health*. We could similarly argue that **without similar motivations and abilities, people cannot achieve their fullest *financial* potential**. Indeed, there are many useful parallels to consider between the array of co-requisite technical and life skills required for *financial* literacy and those required for *health* literacy.[106]

The 'life skills-based' approach

A very relevant framework to introduce at this point from the field of public health is the '**life skills-based approach'** to education that has been adopted by UNICEF and other international development organizations as a means to empowering youth in challenging situations and to build health-related capabilities.[107] WHO describes life skills as **"the abilities for adaptive and positive behaviour that enable individuals to deal effectively with the demands and challenges of everyday life.**"[108]

While this approach is fundamentally aimed at behaviour change, this is achieved through the process of developing **a balance of relevant knowledge, attitudes and skills**. As well as the practical or technical skills we need in daily life, life skills-based education (LSBE) foregrounds **the importance of developing *inner* capacities or 'psychosocial skills'**. Three overarching categories of psychosocial skills are identified as follows:[109]

a. **Self-management and coping skills** – *'learning to be'*

b. **Critical thinking and decision-making skills** – *'learning to know'*

c. **Interpersonal skills** – *'learning to live together'*

The development of such skills in young people now represents a key educational goal in the United Nation's "*Education for All*" (EFA) movement and is seen as an integral component of quality education at each stage in the life course.[110] This now reaches beyond the domain of health, with the aim of enabling people to develop their *full human potential* and the ability to make the most of life in all its aspects. In relation to financial literacy education, this framework hence represents a valuable model to encourage the adoption of attitudes, behaviours and skills that support money for wellbeing.

Breaking the cycle of disadvantage

With its focus on building human potential, the life skills-based approach has been closely linked to Sen's '*Capabilities Approach'.* In this framework, poverty is understood in terms of a lack of access to the functional capabilities that allow people to effectively *do* well and *be* well in their lives.[111] Therefore, for disadvantaged groups,

education that encompasses the development of life skills is a means of fighting poverty in its broadest sense.

The development of life skills is a mechanism for building '***psychosocial capital***' in individuals, and ultimately, in communities. This can serve as a **critical internal resource across our life that acts as a 'buffer' to stress, contributing to our resilience and efficacy, and influencing decision-making and outcomes**.[112]

The development of such psychosocial skills and capacity is **extremely relevant to the context of financial literacy** and this may be all the more critical in the context of social disadvantage. Life skills can provide the internal resources to successfully manage our financial *and* our emotional wellbeing over the 'long haul'.

The inner resources for achieving financial capability

All three categories of life skills – *self-management and coping skills, critical thinking and decision-making skill, and interpersonal skills* – can be applied to the context of building financial literacy. However, it is the category of self-management and coping skills that is arguably the most critical aspect that has been lacking from most financial literacy education initiatives. We will look at each of these in turn in relation to financial literacy.

a. Self-management and coping skills – the capacity for effectiveness and resilience in the world

These skills, along with self-awareness, self-esteem, self-efficacy and autonomy, are about forming an identity, valuing oneself, setting goals, building dreams, etc. and the development of *cultural* and *emotional* capital.[113] Together, they assist in **seeing ourselves as the main actor in defining a positive outcome for our future** and are close to Sen's (1999) notion of "agency" (Hoffman, 2006). This kind of personal agency is essential for the development of positive expectations and aspirations around money and personal wellbeing, and to be able to realize these intentions, goals and dreams through positive action.

These kinds of skills are also key determinants of behaviour change in individuals. A significant body of evidence indicates that optimism, self esteem and self-efficacy can help young people **overcome disadvantage** by conferring resilience and protection from the effects of deprivation and mediating the psychological impact of financial adversity.[114]

b. Critical thinking and decision-making skills – the capacity for thinking rationally and strategically about money

This category relates to *cognitive* life skills such as analyzing information and interpreting motivations, together with problem solving and decision-making skills such as collecting information, evaluating risks and consequences, defining alternatives and choosing a solution. They can help us to build what is known as '*cognitive* capital'[115] and are critical in navigating the complexities and responsibilities of contemporary personal finance.

When consciously applied, these skills **may also help to neutralise the behaviour biases that tend to undermine rational financial decision-making**. Research shows that **when we stop to think, consider all aspects of a decision, and imagine we are explaining our choices to others, our decision-making generally improves** (de Meza *et al.*, 2008). Such 'de-biasing' techniques could assist in counteracting general tendencies to be overconfident and to suppress disconfirming evidence.

c. Interpersonal skills – the capacity to communicate confidently, negotiate successful outcomes and build social capital

The category of '*interpersonal skills'* relates to interpersonal and social skills such as communication skills, negotiation skills, refusal skills, assertiveness skills, knowledge transfer skills, co-operation skills, and empathy skills. Effective and confident interpersonal skills of this kind can support advantageous financial transactions and negotiations. They can also enhance a person's *social capital* by facilitating the kinds of **bridging relationships** that connect people to broader opportunities for participation and enterprise.

Applying a life skills-based approach to financial education

Rather than representing a distinct teaching methodology or pedagogy, life skills-based education is a *conceptual* approach to providing a holistic education across the life course that balances the development of knowledge, attitudes and skills.[116] Life skills do not constitute 'content areas', as such, in a curriculum. Programs have therefore faced the challenge of **integrating these developmental processes with the acquisition of practical or technical knowledge and skills**.[117] This has lent itself to the adoption of dynamic, interactive and learner-centred teaching methodologies both in and beyond the classroom, including peer-to-peer education and problem-based learning.[118]

In terms of financial education, in a life skills-based approach, the enhancement of *self-management and coping skills* might be integrated into the development of the technical knowledge and skills around broader life planning and an understanding of the role of money in our lives. Likewise, the development of *critical thinking and decision-making skills* could be integrated into the transfer of technical knowledge and skills around financial decision-making, analysis and strategic planning. *Interpersonal skills* can be enhanced throughout this process by providing opportunities for a range of diverse communication practices in relevant contexts.

Extending our description of financial literacy

Our description of financial literacy, in its broader sense, can now be further extended to take into account the psychosocial skills and capacities. This is displayed in *Figure 6.2*. The model displays the integrated set of knowledge areas, skill sets and personal capacities that may better support 'money for wellbeing':

1. **The technical skills typically related to financial literacy**. Examples are given in the outer circles of specific areas of financial activity.

2. The range of intersecting ***non*-financial literacies** required that support the broad set of social practices relating to personal money management and consumer affairs.

3. The **life skills** that collectively build the resilience and psychosocial capital that can enable effective and sustainable behaviours that support money for wellbeing. This includes the capacity for enterprising behaviour.

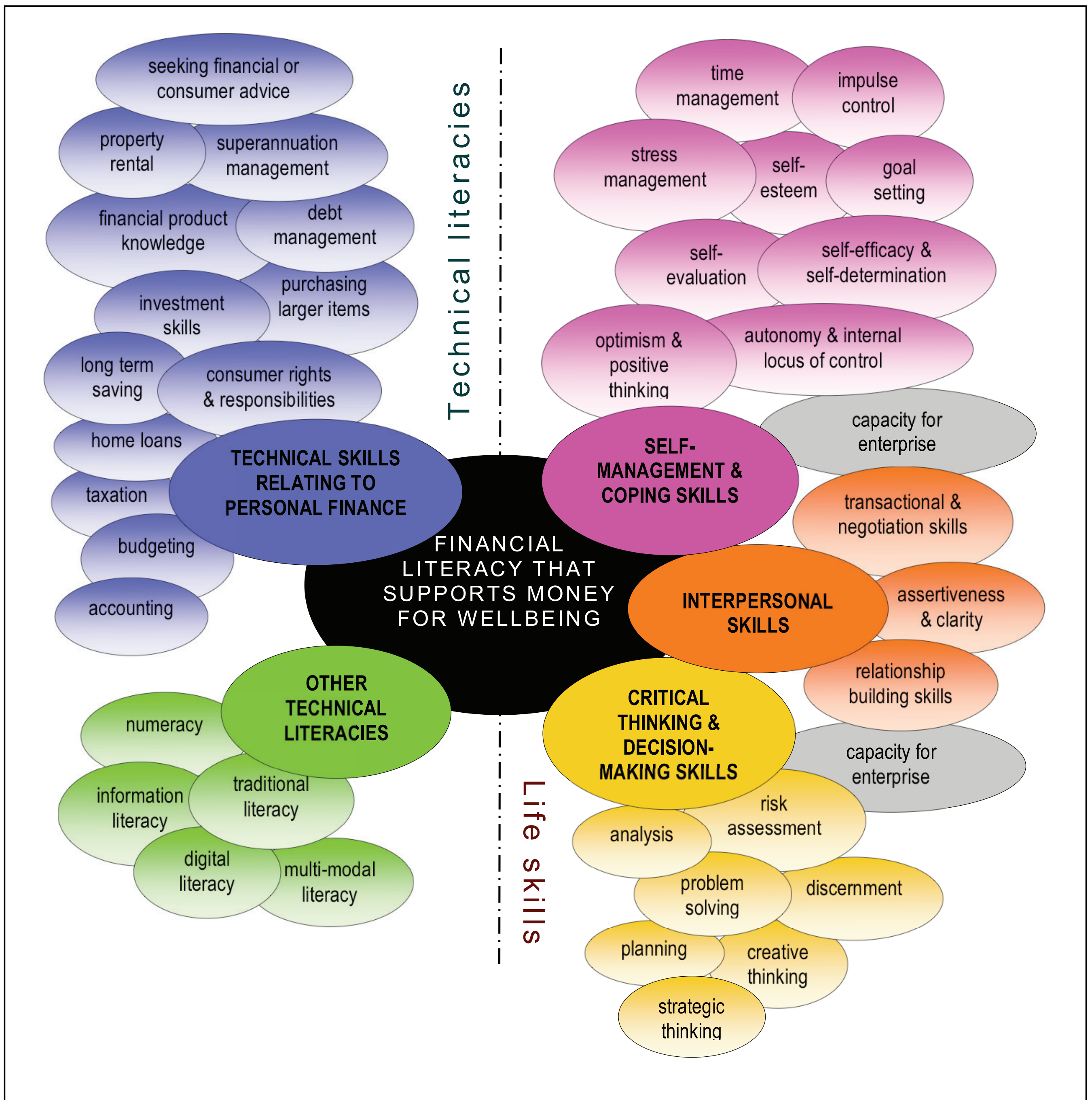

Fig 6.2 An extended description of financial literacy to support money for wellbeing

Part 7. Findings and possibilities

One of our starting points for this review was the proposal that the **underlying psychological and social factors associated with financial education initiatives** need to be paid greater attention. We suggested that such factors may determine our ability to acquire financial capability in its fullest sense and to achieve outcomes that better support our wellbeing as a whole.

The review has drawn on the literature to gain more understanding of these aspects of financial capability. We have discussed perspectives on literacy that extend beyond purely technical competency, and explored the psychological and social aspects of financial decision making and money management, including how our relationships with money relate to happiness and wellbeing. We have also considered the processes by which attitudes and behaviours around money are shaped, and how these tendencies can be transformed to achieve more positive social outcomes. Finally, we discussed approaches that aim to develop the kinds of psychosocial skills and capacities that may facilitate resilience and wellbeing, allowing people to better control the social determinants of their 'financial health'.

Summary of the key findings

The importance of psychological and social factors in the development of financial literacy and our relationship with money

- **The development of literacies requires lifelong learning**. As social and technological processes evolve, we need to update our knowledge and skills. Different capacities are also needed at different key stages of our lives.

- **Literacies are inter-related**. Effective financial literacy now requires digital literacy as well as numeracy, comprehension and writing skills.

- **Literacy and social inclusion are closely linked.** Firstly, people need to participate in a broad range of activities and social settings to develop literacies. Secondly, being literate enables people to participate more fully in activities and social settings. Barriers to such opportunities will inevitably limit young people's potential to experience higher levels of well-being.

- **People's attitudes, aspirations and behaviours around money and attainment are strongly influenced by those of the people around them**. This is a cyclical process. Firstly, social norms, attitudes and aspirations ('cultural capital') are transferred across families, neighborhoods and institutions. This then influences people's own beliefs, expectations and patterns of behaviour. As behaviours change over time, social norms change and the cycle continues.

- **Our families and peers are the primary influence in this process**. At a broader level of influence, legislation, religion, thought leadership, marketing and mass media also shape our attitudes and beliefs. Young people's horizons can therefore be restricted by a lack of more diverse social networks and experiences. This creates barriers to change. In this way, patterns of financial behaviour and relationships with money are transferred across generations.

- **'Behavioural biases' also strongly impact on financial decision-making**. These biases are deep-seated habits of thinking that compromise rational and reasoned decision-making. Biases include using unreliable mental 'short-cuts', procrastinating, avoiding risks with potential loss, and being short-sighted. These habits of thinking and acting are so deep-rooted that information-based approaches to financial education tend to have limited effects on changing actual financial behaviour in the long-term.

The complex relationship between money and wellbeing

- **The economics of happiness is complex. The conclusion from extensive findings is that money does not tend to 'buy happiness', unless a person is living on the breadline**. In the pursuit of happiness, if money serves as an end in itself, it is unlikely to increase our sense of wellbeing. This is explained by the 'happiness treadmill' effects. Despite increases in wealth or consumption, these effects maintain a *status quo* in our levels of positive feeling.

- **In our efforts to 'keep up with the Joneses', we tend to undermine the positive effects of affluence**. Our sense of satisfaction is influenced more by *relative* than *absolute* levels of income. This sense of having less than others has the most negative psychological effects. The social stresses and shame that can result are strongly associated with poor physical and mental health outcomes. This affects the quality of family relationships, care of children and productivity.

- **Positive wellbeing over the long term requires more than pleasure and short-term satisfaction.** More 'authentic happiness' results from realising our own potential. This involves non-material pursuits, inner motivations, creative fulfilment and meaningful relationships in our lives. These kinds of experiences can build inner psychological resources for the future. These can help us resist the social pressures and distractions that undermine financial and emotional well-being.

- **Basing our financial strategies on personal values and goals,** rather than on impulsive behaviours and external pressures, results in more positive outcomes.

Changing behaviours and developing life skills

- **Behaviour change occurs in stages or cycles**. The first stage involves thinking about and preparing for change. New behaviours are then taken up, may lapse

and are re-adopted until they become habitual. Certain conditions need to be in place for a person to progress through each stage. Different interventions can be selected appropriately to match each of these.

- **A range of key determinants have been identified for successful behaviour change.** Internal factors include the person's attitudes, expectations and sense of confidence and control. External influences include a range of social, cultural, spiritual, legal and political factors.

- **A range of structured interventions have been designed for behaviour change.** These strategies remove barriers to change or, else, provide incentives to change. These include approaches that aim to:

  a. change our patterns of thinking and the way we respond to the world (eg *cognitive behaviour therapy*);

  b. enhance the personal traits that help us to adapt to positive change and develop resilience (eg *positive psychology*);

  c. design the conditions that direct people to more beneficial choices and discourage irrational decisions (*choice architecture)*;

  d. create positive incentives that will encourage us to 'buy into' new ways of behaving, as 'consumers' (*social marketing*).

- **Another approach to change aimed at young people is 'life skills-based education'**. This educational framework emphasises the importance of developing inner capacities or 'psychosocial skills', as well as the practical skills we need in daily life. Three categories of life skills are identified:

  a. **Self-management and coping skills.** These involve forming a positive identity, valuing oneself, setting goals, and building dreams, with a strong sense of personal agency. These capacities are critical for developing positive expectations and aspirations, and realising goals through positive action.

  b. **Critical thinking and decision-making skills.** These involve the cognitive skills we use for analyzing, problem solving, evaluating, defining alternatives and choosing a solution.

  c. **Interpersonal skills.** These involve effective communication such as negotiation, assertiveness, refusal, co-operation and empathy. These skills can support advantageous transactions and enhance the bridging relationships that connect us to broader opportunities for participation and enterprise.

- These inner capacities can help young people to adopt positive new behaviours and deal effectively with the challenges of everyday life. For young people who have experienced disadvantage, the development of life skills can lower their vulnerability to future risks and help them to build resilience and protection.

New directions – an integrated approach to money management and wellbeing

The management of our long-term relationship with money and wealth creation is a complex process – one that is closely linked to our beliefs, aspirations and sense of self-efficacy, and to our habits of thinking and behaving. In redefining the objectives for financial education, the financial component of the new *Curriculum for Excellence* in Scotland can be revisited.[119] The **holistic approach** taken in this framework recognizes that **financial empowerment or agency is linked to the achievement of wellbeing**. The wider social implications of achieving financial capability are also acknowledged. People's actions impact on each other and the system as a whole.

Curriculum for Excellence

The key objectives of financial education are to:

- *develop informed, skilled, thoughtful, enterprising and adaptive people who are able to contribute through the work they do, to sustainable economic development;*
- *foster a society whose citizens are empowered to handle financial and economic issues competently and with sensitivity to the possible impact of financial decisions on their own physical, emotional and mental health and well-being, on other people and their relationships with them and on the environment.*

In terms of designing interventions that might go some way to achieving these ambitious goals, several broad recommendations can be made. As seen from the ecological model of behaviour change, **interventions may need to be implemented at several different levels**. This would help ensure sustainable outcomes in communities as a whole. This could involve three complementary approaches:

1. Building personal capability through educational interventions

Drawing on methods and resources from positive psychology, a life skills-based approach could be used to develop relevant skills, attitudes and behaviours. The integrated set of knowledge areas, technical skills and psychosocial skills are shown in *Figure 7.1*. These can provide young people with:

- the **technical competence** to navigate the complexity of contemporary financial products, and make informed and rational decisions with an awareness of risks; and
- the **inner psychosocial resources** to successfully manage the set of drivers and competing pressures experienced when making financial decisions. This can support their financial and emotional wellbeing over the 'long haul'.

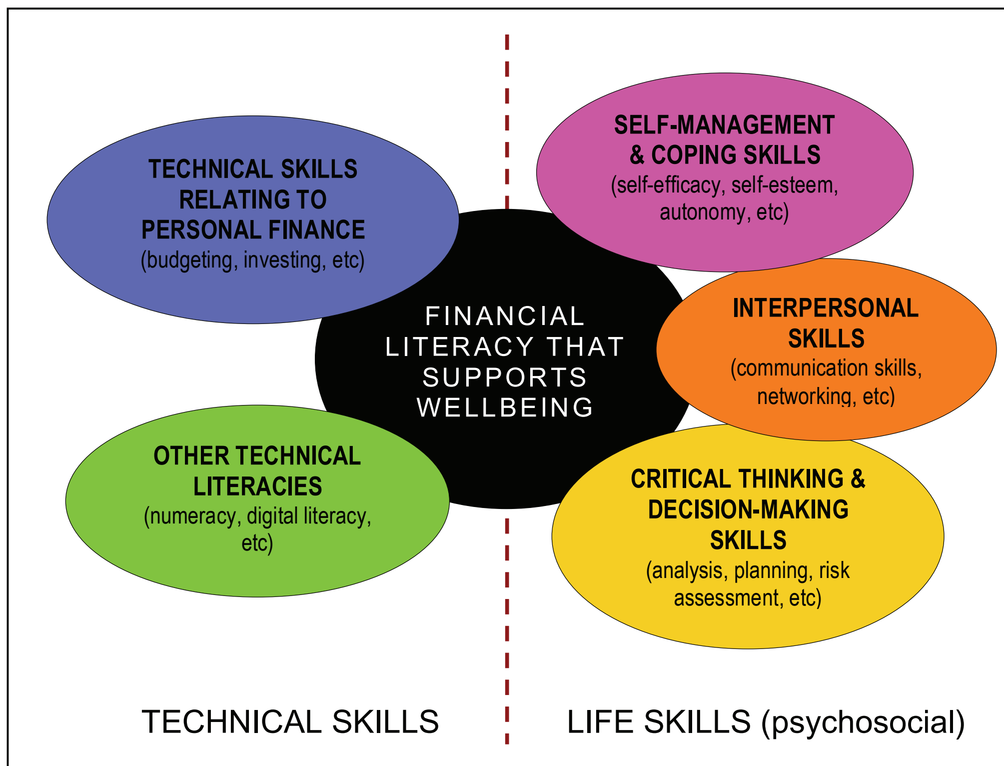

Fig 7.1 An expanded description of financial literacy that supports money for wellbeing

To integrate new knowledge, attitudes and behaviours, the program would benefit from flexible **modes of delivery and learning contexts** (eg interactive, learner-centred methodologies, problem-based learning, guided discovery techniques, and opportunities for modelling new behaviours through role play and simulation.) One of the current innovations in online education is the use of *multi-user virtual environments* (MUVE) such as *Second Life* as a training platform that encourages social learning through observational learning, imitation of peer behaviours and behaviour modelling.[120]

2. Employing complementary behaviour change initiatives at a community or national level.

These could be implemented through policy, legislation and regulation, and through the use of effective social marketing and choice architecture strategies. These would encourage broader changes to social patterns of spending and consumption. By establishing the conditions for change to social norms around financial behaviour, these multi-level initiatives can accelerate broader cultural transformations.[121]

3. Enhancing settings and relationships: Facilitating access to and participation in broader social settings and networks that are well resourced and connected.

These can provide young people with:

- greater opportunities to develop the skills and capacities relevant to financial capability. This could provide a broader 'apprenticeship' in the challenges of contemporary money management
- access to more diverse environments and relationships. This could broaden attitudes, expectations, aspirations and self-efficacy around money and wellbeing.

This final strategy is central to The Smith Family's broader approach. It recognises that the characteristics of people's environment and the quality of the relationships they are able to develop strongly influence an individual's learning outcomes.

Next steps – converting knowledge into practice

Responses that factor in these psychological and social aspects of financial capability potentially have significant implications for transforming intergenerational patterns of financial behaviour. Further applied research is now required to evaluate the behavioural outcomes of adopting a more holistic approach to financial education.

With the benefit of funding from AXA Asia Pacific Holdings, in response to this new evidence base, these issues will be explored through the design and testing of an innovative pilot program over the next two years. The key objective will be to identify ways of developing life skills and building resilience in young people to support long-term wellbeing and future financial responsibility.

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Endnotes

[1] These changes to personal finance include complex superannuation choices, tax reforms, multifaceted credit agreements and the diversification of retail payment methods, coupled with technological changes to the way personal banking is conducted.

[2] OECD (2009).

[3] OECD (2009).

[4] The Economist (April 5th 2008) *Briefing Financial Literacy: Getting it right on the money,* pp. 75- 77.

[5] ANZ-commissioned studies have found that lower education, unemployment or unskilled work, lower incomes and lower savings levels are strongly associated with lower levels of financial literacy in the Australian context (ANZ, 2008).

[6] Wilkinson & Pickett (2009). The empirical findings provide a particularly worrying message for Australia, which is identified as one of the most unequal nations in the developed world despite its self-image as an unusually egalitarian society. The WHO report (Friedli, 2009) on social inequality, resilience and mental health outcomes provides parallel international evidence and conclusions.

[7] Report by de Meza *et al.* (2008) produced in response to the UK's Financial Services Authority's (FSA) Baseline Survey.

[8] A typical example of this is the definition from the Financial Services Authority (FSA, 2009) in the UK: "*Financial Capability is about being able to manage money; keeping track of your finances; planning ahead; choosing financial products; and staying informed about financial matters*". The Financial Services Authority (FSA) leads the National Strategy for Financial Capability in the UK.

[9] See, for example, the definition from the *Consumer and Financial Literacy Taskforce*, Australian Government (2004).

[10] This orientation is reflected in the widely acknowledged definition of financial education provided by the OECD (2005), in which the following objectives are listed: to improve understanding of financial products and concepts; to develop skills and concepts; and to develop the skills and confidence to become 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 well-being and protection.

[11] Programs have been created, however, to build business enterprise skills in young people, such as the "*You're the Boss*" program in the US and UK. See, for example: <
http://www.youngbizuk.co.uk/Business/YTBoss_Product.html>

[12] The newly launched and innovative 3-18 *Curriculum for Excellence* has four key capacities: Successful Learners, Confident Individuals, Responsible Citizens and Effective Learners. See: <
http://www.ltscotland.org.uk/>

[13] See the *Personal Finance Education Group* for an overview of this framework:
<http://www.pfeg.org/curriculum_and_policy/scotland/index.html>

[14] To avoid confusion, '*traditional literacy*' will be used in this paper in reference to the common use of the term that relates to the skills and capacities associated with reading and writing.

[15] UNESCO (2004, p.13).

[16] *ibid.*

[17] A key objective of TSF's new *Participation Agenda* is to implement initiatives that directly enhance the educational attributes of a range of social settings - family (home), community, educational institutions and workplace - and enable the formation of key supportive relationships within these environments. This is with the understanding that individuals do not develop skills and capacities in isolation, but through a supportive social fabric that includes educational resources and the encouragement of parents, peers, teachers and employers.

[18] Financial Literacy Foundation (2007).

[19] See Barton & Hamilton (2000) and Unsworth (2001).

[20]Digital literacy refers to the ability to utilise digital technology to successfully achieve computer-based tasks. Multi-modal literacy refers to the ability to interact with texts that may involve spoken or written language, visuals (eg photographs, charts, etc) and/or sound (eg music, special effects) to create overall meanings in a text. Information literacy refers to the knowledge and skills required to seek out, collate, critique, and disseminate information successfully in today's knowledge society.

[21] For example, 66% of survey respondents would not consider both risk and return when choosing an investment, 21% said they would 'use debt to buy things they can't afford', and 22% of people admitted

that they do not spend a lot of time thinking about financial information before making a financial decision. (Financial Literacy Foundation, 2007)

[22] A survey undertaken by the Australian Survey of Social Attitudes (2005) found that almost half of survey participants agreed that they 'worry a lot' about their financial future, with women and people renting rather than owning their homes higher on the anxiety scale. A study on women's attitudes by WIRE (2007) found women across all socio-economic groups in the study to be generally fearful about money, feeling 'overwhelmed' and 'embarrassed' by gaps in their knowledge of financial matters. The motivation to increase capability tended to be prompted by the necessity of significant life changes such as job loss or divorce.

[23] Overall, the Financial Literacy Foundation's report found that this self-reported confidence in managing money was lower in young people aged between 12 and 17 years. The proportion of young people agreeing that they 'have the ability to deal with credit cards' was almost half that of adult respondents (44% compared with 83%). When choosing an investment, 61% of young people would not consider the return and 77% said they would not consider risk.

[24] See for example: de Meza *et al.* (2008); Fear (2008); McAuley (2008); and Mullainathan & Thaler (2000). There is some evidence, however, to suggest that increasing understanding itself increases motivation and interest in money matters (Ameriks *et al* (2003); Lusardi & Mitchell (2006).

[25] Behavioural economics owes much to the work of Daniel Kahneman and Amos Tversky (1979), whose Nobel Prize-winning "prospect theory" used cognitive psychological techniques to explain a number of divergences of economic decision making from neo-classical theory, describing how people make choices when faced with uncertainty in the real world. Behavioural economics cuts across discipline boundaries, bringing together findings from individual and group psychology, game theory, sociology, anthropology, philosophy and neurology (McAuley, 2008).

[26] See, for example, de Meza *et al.* (2008); McAuley (2008); and Ricciardi (2008).

[27] This relates to the Greg Jacobs' (2003) concept of the 'Ancestral Mind' (pre-verbal, instinctive, linked to emotions and preparation to act) *versus* the 'Thinking Mind' (rational, conscious). The Ancestral Mind can be responsible for destructive, instinctive money behaviours, while the Thinking Mind can create negative mental chatter that is destructive and distracting from positive, useful thinking (Abey & Ford, 2008).

[28] These follow the seminal work of Kahneman & Tversky (1979), and work by Thaler (1999), Gilbert (2005) and others.

[29] Thaler (1999), who uses the term "mental accounting", has documented how people place their money into different categories, even though this may jeopardise their overall financial situation.

[30] Tversky and Kahneman, 1981. One example of this is when we make an estimation of how much something should cost and in order to do this, we use an implicitly suggested anchor as a point of reference for the price. These anchor points, regardless of whether they are correct or not, will hence influence our perception of what constitutes a fair price or a good deal. Another form of anchoring, referred to as 'confirmation bias', is our tendency to find evidence to support rather than to negate something that we have already latched on to. In financial markets, when we become attracted to a share or a fund manager as an investment prospect, we tend to search for confirming evidence from stockbrokers' reports or acquaintances with similar investments, particularly when we have already made at least an initial financial commitment.

[31] Hyperbolic discounting was proposed by George Ainslie (1975). A high rate of discount is used between the present and the near future, and a lower rate between the near future and the far future.

[32] de Meza *et al.* (2008)

[33] See Kuhnen & Knutson (2008), who note that findings from recent research in neuro-economics suggests that the same brain areas that generate emotional states are also involved in the processing of information about risk, rewards and punishments.

[34] Ricciardi (2008)

[35] See Bruni & Porta (2005 & 2007) for a comprehensive overview of the development of this field, contemporary perspectives and methodologies employed. Dolan, Peasgood & White (2008) provide a detailed review and critique of the literature within the paradigm of the 'economics of happiness'.

[36] The debate around whether money buys happiness has tended to be polarized around two opposite positions. Richard Easterlin's seminal work (1974) '*Does Economic Growth Improve the Human Lot*?' took people's self-reported levels of well-being and correlated this with data on per capita income, allowing comparisons to be made both within and across different countries. This revealed somewhat

paradoxical findings which became referred to collectively in the literature as the "*Easterlin Paradox*". Others such as Myers (1992), Diener & Lucas (1999) and Layard (2005) have added to his findings over the years and a clearer picture has now emerged of the socio-economic circumstances in which there is a positive causal relationship running from income to happiness. For an overview of this work, see Bruni & Porta (2005 & 2007) and Becchetti & Rossettia (2009*)*.

[37] Self-reported measures of 'subjective well-being' (SWB) have been commonly used in the empirical research reported on here. These are seen as robust indicators of an individual's overall assessment of *how they feel about their lives* (Dolan *et al*., 2008). As will be discussed later in this section, this is primarily a measure of what is referred to as *'hedonic happiness'*, that is centred on positive affect rather than long-term fulfilment and meaning in one's life. See Miron-Shatz (2009) for a discussion of the need to consider people's evaluation of their *'financial security'* rather than their income in relation to life satisfaction to provide a more meaningful measure of the relationship between wealth and happiness.

[38] Findings also indicate that the size of the gap in per capita income between developed and developing countries is also not matched by an equivalent sized gap in terms of life satisfaction. In other words, if money *does* equate to happiness, then poorer countries should report much lower levels of wellbeing than they actually do, and wealthier countries should report much higher levels of national wellbeing than they actually do. See, for example Diener *et al.* (1995) and Inglehart (1990).

[39] See Layard (2005) for a description of this research and findings from an economic perspective*.* Norberg (CIS) (2005), in response to Layard's conclusions, notes that optimism and belief in the future grows when poor countries begin to experience growth, when markets open up, when incomes increase and people's decisions begin to affect their place in society.

[40] Layard (2005) reports that over time, across OECD countries, rises in *aggregate* income are not associated with rises in aggregate happiness. For example, at the aggregate level, there has been *no increase* in reported happiness over the last 50 years in the US and Japan, nor in Europe since the 1970s. Norberg (CIS, 2005), argues that the fact that economic growth has *not* increased happiness from previous levels does not mean that it is *useless* – it is the fact that growth has continued that makes it possible for us to continue to believe in the future, and to continue experiencing such high levels of happiness.

[41] See Bruni & Porta (2005 & 2007), Easterlin (2005) and Becchetti & Rossettia (2009) for different accounts of these theories.

[42] See extended discussion of the development of this significant theory in Bruni & Porta (2005), who cite, for example, the work of Easterlin (1974), Kahneman (1990), Argyle (2001) and Lucas et al. (2002), and empirical research by Lykken & Tellegen (1996), who found that 80% of the variance in long-term stable levels of Subjective Wellbeing (SWB) could be attributed to innate temperament. However, Sheldon & Lyubomirsky (2007) propose that our 'set point', which is genetically determined, only determines around 50% of our overall sense of positive affect. (This is not to discount the effects of major loss and/or trauma which may affect individuals and their families for extended periods of time and from which certain people may never fully recover in terms of their sense of subjective well-being in their daily lives.)

[43] Longitudinal research by Easterlin (2005) indicates that the ratio between *possessed* goods and *desired* goods remains basically constant for most people over their life span, regardless of the rise and fall of their income. This is akin to a treadmill where 'means' (income) and aspirations run, more or less, at the same pace but in opposite directions.

[44] Bruni & Porta (2005).

[45] Frank (2005).

[46] A recent study for the World Bank showed that when high and low caste children in rural India were unaware of the caste differences between them, they performed equally well when asked to solve a series of puzzles. When they were made aware of the differences in social status, the performance of children from low castes was substantially reduced (World Bank, 2005).

[47] Sheldon & Lyubomirsky (2007) refer to these attitudinal and behavioural components as '*Intentional Activities'*. In their model of the determinants of happiness, they propose that our *Set Point* (genetically determined and essentially constant) accounts for 50% of our long term happiness, *Life Circumstances* account for around 10% of our level of well-being and *Intentional Activities* (cognitive, behavioural or volitional) account for the remaining 40%.

[48] See Seligman (2002) and Snyder & Lopez (2005) for discussions of a 'positive' approach to psychology, whereby the emphasis is not on human *pathology* and *disease-based models* of mental illness but, rather, on the aspects of human psychology that bring about mental *health*.
[49] This topic has been an enduring enquiry since Aristotle and fundamentally involves the distinction between a *hedonic* view and the *eudaimonic* view of happiness, which are founded on two different views of human nature and what constitutes a 'good society'. The latter was embraced by Aristotle. See Bruni & Porta's (2007) edited collection of papers that set out the historical development of these concepts from ancient to contemporary theoretical work.
[50] Personal communication between Prof Timothy Sharp and TSF (2009).
[51] See, in particular, the seminal work of Michael Csikszentmihalyi (1990) on the importance of *flow* in our lives in relation to gratification. Seligman associates these kinds of experiences with a "life of engagement".
[52] Seligman (2002) identifies 24 key virtues of which five could be seen as our personal "signature strengths". These are organized under six general areas: i. Wisdom and Knowledge; ii. Courage; iii. Humanity; iv. Justice; v. Temperance; and vi. Transcendence.
[53] Seligman's tiered model owes much to Maslow's "hierarchy of needs", a model first published in *Motivation and Personality* (1954). Often depicted as a 5-level pyramid, the lowest level is associated with *physiological* needs which are termed "deficiency needs". The top levels are associated with *psychological* needs and are termed "growth needs". The higher needs in this hierarchy only come into play when we have met the lower needs in the pyramid. The top of the pyramid is where self-actualization comes about as a peak experience. Others have since expanded on the number and ordering of levels in Maslow's model, along with debate about the constraints of such a linear and needs-based system.
[54] This is supported by the theory advanced by the economist Andreoni (2006) of the "warm-glow effect" as a key personal motivator for charitable giving.
[55] The first study was undertaken by Dunn *et al.* (2008). The second study was conducted by Howell & Muller (2009) who proposed that spending on personal experiences, such as leisure activities, travel and social events, which also involved spending time with others, built up positive "memory capital". They note, however, that the study only included *relatively affluent* participants for whom material purchases were not associated with fundamental survival needs.
[56] Research indicates significant links between such resilience and positive health outcomes and productivity, as discussed in the recent report by the World Health Organisation (WHO) (Friedli, 2009).
[57] There is now a move towards the "Capabilities Approach" (Sen, 1999) adopted in the quality of life research and international development field, where indicators such as personal freedoms, democracy, social capital, health, and working conditions are used to gauge well-being across social groups and nations. This aligns more closely with the potential for self-actualisation as a measure of human well-being, rather than 'desire-fulfillment' or access to commodities. It also aligns with the *United Nations Human Development Indicators (HDI).* The Australian Government has incorporated these central concepts of opportunity, freedom and access from Sen's framework into the Treasury's *Wellbeing Framework* (2004), with the recognition of the limitations of a narrower approach to wellbeing that is based solely on income and consumption.
[58] Norberg (2005) notes that working life can offer a lot of opportunities for flow, since it most often provides us with a system of challenges, incentives and feedback that makes us feel that we are in control and there is a meaning to our actions.
[59] Sen (1999) cited in Friedli (2009).
[60] See Wilkinson & Pickett (2009) for a comprehensive account of this issue and persuasive empirical evidence that *relative* social inequality results in a range of social and health problems rather than income *per se*. The WHO report (Friedli, 2009) on social inequality, resilience and mental health outcomes provides parallel evidence and conclusions.
[61] As noted by Kasser (2002) such materialistic values also work against close interpersonal relationships and connections to others – two hallmarks of psychological health and high quality of life. See contrasting perspectives on consumerism and economic growth in Australia from Hamilton & Denniss (2005) and the related critique by Andrew Norton, Centre for Independent Studies (2005).
[62] This model draws on a range of sources including PMSU(2008), who cite the *Expectancy-Value Model* developed by Eccles and colleagues for influences at the child and family level, and work by Putnam (1995), Sampson *et al*. (2002), and Wilson (1987) for community level influences.

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[63] The term was first used by Bourdieu (1973) in *Cultural Reproduction and Social Reproduction*. For Bourdieu, this referred to the forms of knowledge, skill, expectations, norms and attitudes that impact on educational attainment. Cultural capital was seen to be embodied in individuals, who each inherit and acquire these attitudes, expectations, norms, etc. through the process of socialization. In this paper, we will draw heavily on a framework of cultural capital presented in a recent discussion paper by PMSU (2008) for the Prime Minister's Strategy Unit (PMSU) in the UK Synthesizing a wealth of social research and theory, this provides a useful working model that describes how cultural capital is formed; how cultural capital has a critical effect on the actions or behaviour that we can choose in life; and how culture and behaviour change take place.
[64] Self-efficacy here refers to the degree to which people believe they are able to achieve their goals effectively. While such psychosocial traits are primarily expressed at the level of the individual, these kinds of 'dispositions' can also be seen as cultural traits that are held as part of our collective cultural capital, raising aspirations and expectations, and driving positive behaviours.
[65] PMSU (2008).
[66] This follows Bronfenbrenner's *ecological theory of human development* (1995; 1979; cited in Hilferty, Redmond & Katz, 2009) where different contexts such as family, school and community are seen as *nested* systems of influence that vary in proximity to the individual. This theory emphasises multiple interacting systems of influence and the dynamic interactions between person, process and context (Hilferty, Redmond & Katz, 2009).
[67] Research using a large cohort study in the UK revealed that 70-90% of children who went on to spend their young adult years in areas with high levels of multiple deprivation could have been identified from what was known about their personal and family backgrounds at the age of 10 (WBL, 2008).
[68] Social Exclusion Task Force (2008)
[69] PMSU (2008)
[70] Crosnoe *et al.* (2002)
[71] See PMSU (2008). Research indicates that the level of educational aspiration of close friends is more aligned than would be expected when their social backgrounds are compared. One study revealed that two thirds of 14 year olds intending to leave school at 16 say their friends intend to do the same.
[72] Social Exclusion Task Force (2008)
[73] Gottfredson (2002)
[74] Lupton & Kintrea (2008) note that there is no consensus within the literature on which neighbourhood effects are most important, who they most affect and at what life stage they impact most.
[75] Social Exclusion Task force (2008)
[76] *ibid.*
[77] Social capital refers to the features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives. Two types of social capital are distinguished here, following Putnam (1995): i. *Bonding* social capital is characterised by strong bonds among group members ("social glue"), for example, with close friends and family; and ii. *Bridging* social capital is characterised by weaker, less dense but more cross-cutting ties ("social oil"), for example, with business associates, acquaintances, friends from different ethnic groups, friends of friends, etc.
[78] Social Exclusion Task Force (2008)
[79] Eighty percent of KIPP students are low-income, and 90 percent are African American or Latino. Nationally, more than 90 percent of KIPP middle school students have gone on to college-preparatory high schools, and more than 80 percent of KIPP alumni have gone on to college. See <http://www.kipp.org/> for an overview of this initiative.
[80] Behavioural intentions refer to our intentions to undertake a specific course of action, in the context of the attitudes and social norms towards this course of action. They need to be distinguished from behaviour as there is often a gap or lack of alignment between what we intend to do and what we actually do.
[81] This 'authorisation' may involve explicit formal sanctions or more informal means of approval. They hence represent the general expectations, rules and guidelines for behaviour of that community or society. These social norms and related behaviours will necessarily differ across diverse socio-cultural groups, but majority views will exert pressure on what is seen as acceptable and 'normal' behaviour at a society-wide level at a given time.
[82] See *Part 2* for a discussion of behavioural biases and financial decision-making, drawing on the research from behavioural economics and psychology more broadly.

[83] Arun Abey (2009) cited by Amanda Morrall in her article '*Putting your kids in the money*': <http://www.stuff.co.nz/the-press/business/your-money/2365441/Putting-your-kids-in-the-money>
[84] This has been discussed by Singh *et al.* (2005; 2006) who cite Eades (1999) and Senior *et al.* (2002), and research by Musharbash (2000) in the Yuendumu community in the Northern Territory that found attempts to save were regarded as "selfish and stingy" and that it adversely impacted on social obligation.
[85] Singh *et al.* (2005).
[86] See report by the Wesley Mission (2009) on the over-reliance of Australians on credit cards as an income source in late 2008.
[87] McAuley (2008).
[88] See Gielen & Sleet (2003) for an overview of different models of behaviour change and applications of the *Stages of Change* type model.
[89] Prochaska & DiClemente (1986). This is referred to more technically as the *"Transtheoretical Model of Behavioural Change"* (TBC). While this model has been slightly modified by Prochaska *et al.* since the mid-80s, it still forms the basis of contemporary staged models of change.
[90] In 1991, a major workshop was convened to identify common elements between the most widely accepted models that are necessary for understanding, predicting and modifying human behaviour: *the health belief model*, *the social cognitive theory*, *the theory of reasoned action*, *the theory of self-regulation and self-control*, and *the theory of subjective culture and interpersonal relations* (eg. Azjen, Fishbein, Bandura, and Becker). This was with the aim of developing a unifying framework. See original report and later extensions by Fishbein *et al.* (1991 & 2001).
[91] This is particularly relevant for social groups that tend towards 'collectivism'. However, as noted by Boler & Aggleton (2005), in 'western society', the idea of an individual being in control of his or her actions is far more dominant. A context such as mainstream Australia would hence lend itself more readily to an individualistic *self-determination* model of behaviour change.
[92] See *Figure 4.3*, Part 4, and the detailed elaboration of this model of culture change in PMSU (2008).
[93] The key theorist associated with 'self-efficacy' is Bandura (1997). See Hyde *et al.* (2008) for a more contemporary review of literature into self-efficacy as applied to the public health context.
[94] Gough (2004), cited in Vale *et al*. (2009)
[95] This concept was originally discussed in Rotter's seminal work in 1954.
[96] See discussions on self-efficacy and resilience in Friedli (2009); Redmond, G. (2008), Masten (2007), Zimmerman & Arunkumar, (2004) and Luthar (2006).
[97] Adapted from '*Living is for Everyone*" factsheet, DoHA
[98] See a discussion of the importance of resilient communities in Friedli (2009). See also Masten (2001), cited in Duncan & Magnuson (2005), and Zimmerman & Arunkumar (2004) and Luthar (2006).
[99] For an overview of the different theoretical models adopted in the public health domain, see Gielen & Sleet (2003).
[100] For an overview, see: BABCP (2005).
[101] This overview draws largely on Fuller (2009) who sets out the framework of choice architecture and describes its tools and applications.
[102] Kotler's formative work on social marketing in the 1970s has evolved into a more sophisticated framework drawing on lessons from commercial marketing (Kotler & Zaltman, 1971). A common definition is "the use of marketing to design and implement programs to promote socially beneficial behaviour change" (Grier & Bryant, 2005, p. 319). The term is hence somewhat misleading as social marketing goes beyond the kinds of public information campaigns commonly put out by policy makers. Governmental and nonprofit organizations have used social marketing extensively to promote good nutrition, breastfeeding and physical activity, and influence a wide variety of other preventive health behaviours.
[103] *SaverPlus* is a financial literacy and matched savings program developed to help people on low incomes set and achieve a savings goal, and establish a long-term savings habit. This is achieved by: (a) providing financial management training; (b) offering personal coaching support and guidance from a trusted community organisation (of which The Smith Family was one) and (c) matching every dollar saved with an additional $1 (up to $1,000) towards child or adult education costs.
[104] See Seligman (2002) and Snyder & Lopez (2005) for theory and applications of positive psychology.

[105] WHO (1997) *The Jakarta Declaration on Health Promotion in the 21st Century*.

[106] This is both in terms of the co-requisite technically oriented literacies we identified above, such as information literacy, and the kinds of underlying *psychosocial* capacities foregrounded by WHO that may support positive behaviours and good decision-making. This inherent relationship between financial literacy and health literacy has been noted in respect to the *Tasmanian Health and Wellbeing K-10 syllabus* of the Tasmanian Government Department of Education, which takes a holistic and integrated approach to wellbeing education that explores the physical, social, emotional, mental and spiritual dimensions of health. With an emphasis on developing critical thinking, self efficacy and self awareness, one of the three strands '*Skills for personal and social development*" covers a range of self management and social skills and explores the role of attitudes, values and beliefs in individual and community wellbeing. For a useful commentary on this crossover, see: <http://www.financialliteracy.edu.au/verve/_resources/TAS_HWBFinLit_file.pdf>

[107] For an overview of the life skills-based approach see: http://www.unicef.org/lifeskills/index.html.

[108] As noted by Hoffman (2006), the term "life skills" term was used by WHO in the field of health promotion as early as 1986. In applying the broader vision of health that encompasses not only physical, but also emotional and social health, life skills have been applied to the prevention of HIV & AIDS, sexual and reproductive health, hygiene, nutrition and violence prevention. While developed originally for a public health context, a life skills-based approach has since been applied to other capacity building initiatives, eg for the development of livelihood skills, peace building behaviours and environmental protection.

[109] These areas of psycho-social skills relate to the first three 'Pillars of Education', '*Learning to be*': Personal abilities ; '*Learning to know*': Thinking abilities; and '*Learning to live together*': Social abilities - identified in the Delors Report (1996) to UNESCO of the International Commission on Education for the Twenty-first Century. The final pillar '*Learning to do*' relates to the practical or technical skills required to achieve different tasks. In the context of financial literacy, this would constitute the technical knowledge and skills pertaining to money management.

[110] Life skills-based education is now an objective of two of the six EFA goals and is central to EFA Goal 3 – '*Promote learning and skills for young people and adults*'. For an overview of EFA goals, see: <http://portal.unesco.org/education/en/ev.php-URL_ID=47066&URL_DO=DO_TOPIC&URL_SECTION=201.html>

[111] See Bakhshi *et al.* (2003) and Hoffmann (2006). According to the Capabilities Approach developed by Sen (1999), the wellbeing of a person cannot be reduced to a quantity of goods that a person consumes. As noted by Hoffman (2006), the Capabilities Approach as concerns education is larger in scope than a 'human capital' approach which narrows down the contribution of education to a limited range of livelihood skills mainly related to production and income generation. See *Part 3* for an earlier discussion.

[112] The importance of psychosocial capital is strongly indicated by research into mental health and inequality. See, for example, WHO (2009), Newman T. (2004); and Masten, A. S., *et al.* (2008).

[113] For a discussion of 'emotional capital', see: Gendron (2004).

[114] See Friedli (2009); Redmond, G. (2008); (Masten and Obradović, 2007); Zimmerman & Arunkumar, (2004); and Luthar & Cicchetti (2000).

[115] 'Cognitive capital' can seen as a comonentof psychosocial capital (Friedli, 2009).

[116] This is emphasised in UNESCO's overview of the EFA goals. See: < http://www.unesco.org/en/efa-international-coordination/the-efa-movement/efa-goals/lifelong-learning/>

[117] This aspect of LSBE has been critiqued in a report by Boler & Aggleton (2005) for the UK working group on education and HIV/AIDS, who draw attention for the need for stronger methodological responses to successfully integrate life skills development into a mainstream curriculum.

[118] For example, an education program aimed at teaching 'livelihood skills' to young people may cover the practical knowledge and skills that are vocational in nature while providing opportunities to develop problem-solving skills, self-management skills and interpersonal skills for building confidence, assertiveness and negotiation through structured activities, role-play and opportunistic experiences in 'real life' settings.

[119] See: < http://www.ltscotland.org.uk/>

[120] See Smith & Berge (2009) for a discussion of contemporary educational programs that make use of *multi-user virtual environments* (MUVE) such as *Second Life*, with reference to Bandura's *Social Learning Theory* (1977). This widely cited theory adopts a cognitive behavioural approach to learning that is based on the idea that we learn from and model new behaviours on our interactions with others in a social context.

[121] This would include existing programs such as ANZ's SaverPlus matched savings scheme for low SES individuals that changes norms in financial behaviour through providing structured incentives to save. ANZ has recently commissioned a behavioural study by Chant Link & Associates, looking into the particular success factors of *SaverPlus*. The results will be available later in 2009 and will be used to inform *Phase 2* of the *TSF & AXA Applied Research Project*.

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