

## Civic and Economic Education and the Current Financial Crisis II

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Thorsten Hippe

## Editorial: Social Science Education in the Financial Risk Society

*Risk society is a catastrophic society.  
In it, the exceptional condition threatens to become the norm.  
Ulrich Beck, Risk Society (1986)*

After the catastrophe of the great depression in the early 1930s, intense political efforts were undertaken to ensure that such a calamity (and its political consequences) won't ever set the world on fire again. Indeed, after the Second World War, the economic system of the Western world experienced a lengthy period of basic economic stability and security, which led some authors to speak of the post-war era as a "golden age of capitalism" (Marglin/Schor 1992). Most importantly, for ordinary people, the economic world had become not only a more prosperous, but also a safer, more secure and trustworthy place.

Despite temporarily rising inflation and gradually increasing unemployment rates in some countries since the mid 1970s, most people's sense in Western countries' middle classes still was a feeling of basic economic security. In contrast to the situation in many developing countries, the mind of the Western middle classes was shaped by the (unconscious) conviction that – in general – you can rely on the institutions of the market economy, the trustworthiness of its major players, the honesty of its regulators, the absence of *blatant* economic injustice, the appropriate legal punishment of outright economic fraud and irresponsibility, and so on. Seldom and rather limited incidents which contradicted these expectations were rather taken as exceptions which proved the rule.

A similar sense of basic confidence was also characteristic for the economics profession. In the eyes of leading economists, the economic glitch of the 1970s was followed by a period called "the great moderation" (a substantial decline in macroeconomic volatility), as Ben Bernanke (2004), now chairman of the US Federal Reserve, entitled his speech before the American Eastern Economic Association. Just one year earlier, Robert Lucas, an economic Nobel Prize Winner highly esteemed in his profession, declared<sup>1</sup> that the "central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades" (Lucas 2003). Other, more sceptical economists who dared to make their colleagues aware of the large risks hidden in the US financial sector (like Raghuram Rajan did with a now-famous presentation

in August 2005), received a stern rebuke: "I felt like an early Christian who had wandered into a convention of half-starved lions" (Rajan 2010, 3).

In the last two years, not only has economists' overconfidence in their own expertise (Angner 2006) suffered a setback. More importantly, middle classes' sense of basic system stability, security, legitimacy and trust (worthiness), which is so central for human well-being, has been shaken to its core. In the economy, almost nothing seems to be certain anymore. As a result of the financial crisis, people have begun to call into question the security of their saving accounts. They have begun to wonder about bankers' blatant economic irresponsibility and cynicism. They have begun to doubt the reliability and integrity of the regulators of the banking institutions. They have begun to distrust the future purchasing power of the euro. They have begun to fear that governments will default on their debt. They have begun to question whether bankers are held to be more equal than ordinary citizens (to express it in Orwellian terms). In general, people have begun to doubt the basic willingness of their economic and political elites to manage the economy in the interest of the general public instead of in the interest of their own pockets and their elitist, possibly self-centered worldviews. According to Leo Müller (2010), who documents the massive failure of bank regulation in Germany, and Simon Johnson (2009), who writes about how the US is "becoming a banana republic", they have at least some reason to do so.

So, the financial crisis is not a purely economic crisis. It is a crisis of political and social trust, which is especially dangerous because social distrust can become a self-reinforcing spiral which may infect whole societies and cripple cooperation and development (Rothstein 2005). Elites have a role model function which is important for the integration of society<sup>2</sup>. Why should ordinary citizens stick to the rules if members of the economic elites do not respect these rules and often escape largely unscathed in the end? Why should citizens contribute to the greater good (e.g. paying taxes)

1 Cited in: Paul Krugman (2009): Fighting Off Depression. See <http://www.nytimes.com/2009/01/05/opinion/05krugman.html>

2 One example for the importance of this role-model function, i.e. the influence of elites' behavior (in this case: managers' remuneration) on the behavior of ordinary citizens (in this case: willingness to support economic reforms and working effort) was empirically proved by Hesse (2008).



if much of it is used to fill the money sinks in all these “bad banks” now popping up everywhere (Müller 2010), while those who are responsible for the mess often lead a fine life? Why should citizens trust the political elite who (as would-be supervisors) stood on the sidelines when their Federal State banks (the German Landesbanken) squandered incredible amounts of money in reckless “investments”, which will put a very heavy burden on many states’ budgets in the coming decade (Müller 2010)? Why should citizens tolerate the prospective tax increases and/or benefit cuts to compensate for this? What to think of a political elite who lets citizens instead of banks’ shareholders and unsecured bank creditors bear the brunt of banks’ toxic waste (which would have been possible via the “good bank/bad bank-model”, see e.g. Buiter 2009a, b, c, d), but only a few months later calls for “taboo-free” discussions about spending cuts in educational and social policy? What is the real “taboo”?

*“Bailing out the holders of existing bank debt and other bank creditors would be outrageously unfair: they did the lending and made the investments, they should eat the losses. In addition, many of the creditors are likely to be much better off, even after they write down/off their claims on the banks, than most of the tax payers and public expenditure beneficiaries that pay for the bail out. Bailing out the existing creditors would also create dreadful incentives for excessive future risk-taking by banks”* (Buiter 2009b).

So, how should social science education deal with the sweeping economic developments, the outrageous unfairness (Buiter) and the ensuing legitimacy crisis in the last years? What didactic consequences should be drawn from the failure of financial markets, the failure of the majority of the economics profession, the failure of regulatory policy and politics and the failure of the political class in the last decade?

What should pupils learn about the current financial crisis and/or financial crises in general and why? How can they develop a deeper understanding of the issue which goes beyond superficial media stories on the topic?

Can financial education make a contribution to decrease the likelihood and/or severity of future financial crises and if so, how? Or is that an illusion?

Do we need a stronger insistence on the *moral* dimension of economic education in order to combat a culture of excessive “greed” in finance (and beyond) which is often made responsible for the crisis in public debates at the moment? If so, how should such a conception of *ethical* economic learning look like?

What are the consequences of the financial crisis for current theoretical conceptions of civic and/or economic education? Do these have to be partially revised or are they already well suited to analyse the topic?

How do pupils view the financial crisis and its causes and how do these cognitive conceptions relate

to scientific conceptions? What are possible “misconceptions” and how should civic / economic education deal with these?

The articles in the current issue continue the discussion of these questions which we already started in the last issue. Firstly, Mikl-Horke analyses financial markets from a sociological viewpoint and shows the importance of re-embedding these markets in *social* knowledge. Ötsch and Kappeler make clear why orthodox (neoclassical) economic education as currently taught in many universities is not well suited to promote an adequate understanding of the financial crisis. Koutselini approaches the financial crisis from a philosophical and ethical viewpoint. Afterwards, Reifner and Schelhowe deal with the topic of financial education. Subsequently, Schuhen investigates how students think about the financial crisis and its causes. Last but not least and beyond the main topic of this edition, but not unrelated to it, the article of Elisabeth Chatel analyses how economic education is taught in France, which is quite different from the orthodox (neoclassic) approach and therefore may be an interesting alternative to the one criticized by Ötsch and Kappeler in this issue.

*Gertraude Mikl-Horke* argues that trust, confidence and norms based on long-term relations between actors are essential preconditions for the efficient functioning of financial markets. For her, the main origin of the financial crisis lies in a process of growing dis-embeddedness, i.e. of increasing dissociation of the financial sector from the real economy and the wider society since the 1980s. She analyses and criticizes the idea of “financial literacy” for its individualistic bias and for diverting attention away from socio-political dimension and basis of financial markets, i.e. from the question of the rationality and legitimacy of their current shape. As an alternative, which may counteract the current dis-embeddedness of the financial sector, she advances the idea of a “social literacy”, which puts financial decision making in relation to values, norms and overall aims of the society and encompasses a consideration for the larger effects of financial markets on society and culture.

*Walter Ötsch* and *Jakob Kappeler* develop the thesis that today’s economic education is anything but helpful in supporting students to understand the economy in general and the financial crisis in particular. They see the reason for this failure of economic education in its narrow focus on just one theoretical paradigm, i.e. neoclassical economics. This theoretical approach is said to be completely inadequate to explain the crisis, because of its underlying cognitive theory (naïve representationalism) and its overemphasis on the self-regulating capacities of the market. Both of these core assumptions of neoclassical economics were invalidated (once again) by the financial crisis. But despite the shipwreck of neoclassical theory, Ötsch and Kappeler



show, academic economists and their textbooks still cling to this theoretical approach. In contrast, the authors recommend a different approach to teaching economics, which is based on theoretical pluralism and problem-centered learning.

According to *Mary Koutselini*, the financial crisis cannot be reduced to economic causes, but has deeper, i.e. philosophical, educational, and ethical roots. Thus, the crisis has to be understood as a citizenship crisis, as a collapse of the moral and ethical ties of society. She argues that the recurrent crises of financial capitalism have their reason in an imbalance between the three Aristotelian concepts of "the Necessary, the Useful, and the Good" in the current society, where the Useful dominates the other two principles and where especially "the Good" (morality, justice etc.) is marginalized. This is reflected in contemporary education, which increasingly focuses on training workers and consumers self-absorbed in enhancing their individual competitiveness and living standards, whereas the development of a holistic person who is also actively aware of the greater good (nature, society, etc.) and who feels a sense of responsibility for its concerns is neglected. As an antidote, she advocates the modern-meta modern discourse as a new paradigm of communication, schooling and coexistence in society.

The article of *Udo Reifner* and *Anne Schelhowe* addresses the issue of financial education. This is an important aspect of the financial crisis because of at least two reasons. Firstly, a pivotal cause of the crisis was that imperfect rationality led many people especially in the US and the UK to take out loans of all kinds which they could not repay later (Bar-Gill 2009). Secondly, an unfortunate consequence of the crisis was that banks persuaded unexperienced, confiding customers to invest (and hold) their money in rather risky Lehman bonds, which became worthless in the wake of the bankruptcy. As a consequence, the authors argue that the task of financial education should

be to enhance the ability of citizens to make competent choices and to promote self-confident consumer behavior in the financial market. They present the variety of approaches and projects in Germany which are concerned with this issue. Finally, they depict their own two projects of financial education in schools, which put special emphasis on learner-oriented case studies and on systematic cooperation with banks.

*Michael Schuhen* conducted a qualitative empirical investigation concerning the subjective knowledge of undergraduate university students about the global financial and economic depression. How do these subjective theories relate to explanations of the crisis purported by the media and the social sciences? In order to find out, the author let them write an essay about the causes and impacts of the financial crisis and asked them to give recommendations for possible political countermeasures. For Schuhen, the results of his empirical study are "partially disillusioning", because the students – even those who minor in economics – showed a huge lack of knowledge about the causes of the depression and most students did not make any reference to scientific argumentation patterns.

The article of *Elisabeth Chatel* considers the situation of economic education in France, particularly in the general streams of French upper secondary schools as part of the subject called Economic and Social Sciences (ESS). By analyzing the evolution of the prescribed curriculum, the author shows that ESS constitutes a distinct approach which is radically different from the usual way of teaching economics in universities. Thus, it may seem to be no wonder that it was challenged on several occasions by academic economists and business representatives who claimed that business and enterprise were shown in an unfavorable light. However, until today the teachers of the subject were able to defend the multidisciplinary and pluralistic character of their subject while at the same time strengthening its scientific, analytical basis.

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Gertraude Mikl-Horke

## Social Knowledge for Financial Markets Soziales Wissen für Finanzmärkte

Financial literacy is an important issue today, but it is directed/limited to improve the practical skills of people taking financial markets and their present working for granted. However, financial markets are social institutions and social processes involving network relations as well as rules and norms. Globalization has resulted in a dominating role of financial markets over the economy with importance for the transformation of capitalistic society. The sociological perspectives on financial markets have relevance also for the present crisis for which several explanations have been suggested. Most explanations overlook, however, the process of disembedding of the financial markets from the societal context, which is represented by the reliance on a specific kind of knowledge. To illustrate the need for reintegrating financial markets in the economy and making them more responsive to societal concerns, financial knowledge requires to be embedded into social knowledge about the function of financial markets for society, the importance of norms and the social character of markets.

Finanzerziehung ist ein wichtiges Anliegen in der Gegenwart, aber die „finanzielle Alphabetisierung“ beschränkt sich auf die Vermittlung praktischen Wissens, ohne die Finanzmärkte und ihr Funktionieren zu hinterfragen. Aber Finanzmärkte sind soziale Institutionen und soziale Prozesse, die Netzwerkbeziehungen sowie Regeln und Normen umfassen. Die Globalisierung resultierte in einer dominierenden Rolle des Finanzsystems im Verhältnis zur Wirtschaft und mit Implikationen für die Transformation der kapitalistischen Gesellschaft. Die soziologischen Perspektiven auf Finanzmärkte sind auch für die gegenwärtige Krise relevant, die verschieden zu erklären versucht wird. Diese Erklärungen übersehen jedoch vielfach den Prozess der Entbettung der Finanzmärkte aus den gesellschaftlichen Kontexten, der sich auch durch die Betonung einer spezifischen Art von Wissen darstellt. Um die Notwendigkeit für die Reintegration der Finanzmärkte in die Wirtschaft und für ihre Verantwortlichkeit für gesellschaftliche Belange verständlich zu machen, bedarf es der Einbettung des finanztechnischen Wissens in soziales Wissen über die Funktion der Finanzmärkte in der Gesellschaft, die Bedeutung von Normen und den sozialen Charakter von Märkten.

### Keywords:

Economic sociology, embeddedness, diffusion effects, financial crisis, financial market capitalism, financial literacy, performativity, uncertainty, social networks, social knowledge.

### Markets, crisis and financial literacy

The decades before the outbreak of the financial crisis of 2007/8 and the ensuing economic recession in great parts of the world had witnessed a huge expansion of the global financial transactions and the consequent dominance of the financial markets over the rest of the economy. Financial markets became the primary global arenas of economic activities and involved also larger strata of the population in the US and in Europe directly or indirectly. This raised awareness of the need to improve financial knowledge among the public at large. “Financial literacy” programs were set up by governments of countries like the US, UK and Australia and by inter-governmental projects of the OECD resulting in the establishment of the “International Gateway for Financial Education” in 2008. The crisis provided additional cause for these initiatives because of the high percentage of consumer and household debts, the rise in insolvencies, the irrational actions of investors and the deceptive or fraudulent behaviour by financial intermediaries. Its dismal

effects aside the crisis has led to a heightened awareness that the expansion of the worldwide financial transactions have not been equalled by a corresponding increase of financial knowledge among the public at large. Financial literacy education has become a great political issue and is promoted by states, universities and financial institutions; it has attracted also the consulting business and seems to develop into a special market for educationists.

Financial literacy is understood as the ability to manage one’s money affairs. According to an OECD publication “Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.” (OECD 2005, 26).

The emphasis of the programs is on basic pragmatic questions of consumer finance and on empowering people to match their expenses to income, to plan financial affairs according to life circumstances, to handle credit, insurance and retirement planning etc. The programs do not aim at furthering a broader understanding of the world of finance, even much less





raising doubts regarding the rationality or legitimacy of the present working of financial markets. Therefore, the critique of financial literacy education blames it as “an attempt at social engineering, trying to change not only consumers’ skills, but their thought processes, feelings, motivations, and ultimately their values” (Willis 2008, 285). It is criticized that the financial ability programs take the rationality of the market for granted and divert attention from necessary market regulations to the responsibility of customers.

In the following an attempt is made to introduce some sociological insights into the understanding of financial markets and to enlarge financial education by including “social literacy” as a different perspective on markets and economic action. This leads also to looking at the financial crisis from different perspectives and to draw attention to the need to complement or counteract the kind of financial knowledge that is produced by an understanding based on knowledge of the social character of economic processes.

### **Sociological perspectives on financial markets**

In economics money and markets are not explained, but are taken for granted. The market is expressed by relating aggregate demand and supply, while money, devoid of its symbolic and social meaning, is reduced to its quantitative form. While mainstream economics has treated uncertainty as an irritating occurrence that disturbs the perfect market model, heterodox economists as well as economic sociologists recognize uncertainty as a fundamental characteristic of markets which cannot be converted to risk by introducing probability measures (e.g. Springler 2009). Uncertainty is reduced, however, by social structural and institutional ordering of market relations.

From a sociological perspective money takes on the meaning of a basic bond of society and can be defined as the social contract of modern society (Paul 2004, 222). Markets are seen as interactions between actors in the context of social situations that involve a range of different aspects, among them competition for scarce resources; they are understood also as institutions socially constructed by attributing meaning and function to them within a certain societal context; especially financial markets may be additionally defined as social fields in which people with different interests, status and power fight for the appropriation of profit (Godechot 2008). In all these definitions markets do not figure as self-steering mechanisms of prices and quantities of goods and money, and even financial markets, which often are understood as the most typically perfect markets, are defined as social systems or social fields where people interact with one another.

Money and finance were well represented in classical sociology: Georg Simmel looked into the preconditions and consequences of money for culture, social

relations and the psychology of individuals, and Max Weber, who had done an early study on stock exchanges (Weber 2000; Mikl-Horke 2010), had reflected on the cultural meaning of money, markets and capitalism. But after that for many decades markets and especially financial markets were not touched upon by sociological research. Since the 1980s, however, economic sociology has gained a new impetus as the empirical study of markets and economic action (e.g. Mikl-Horke 2008, 114). It focuses preferably on the intermediate level between the state and the individual behaviour, i.e., on social relations and networks between individual actors, groups and organizations, and on the values and norms which emerge or are interpreted and put to effect in the course of social interactions in markets.

### *Social relations in financial markets*

While economic theory takes into consideration only the purely economic rationality of individual market actors involved in exchange and competition, the economic sociological studies emphasize the “embeddedness” of economic action in social networks (see especially Granovetter 1985; White 1981). The social motives like the quest for recognition and reputation, the need for belonging and for trusting, the striving for power, and the orientation at values and norms are present also in market interactions and affect the economic outcome. They may be utilized as social capital instrumental for economic success, but they may be valued also for their own sake. In any case, however, they influence market behaviour and are in existence wherever people have to deal with one another, whether as market participants, or in other situations and financial markets are no exception to this.

Financial markets comprise all the many different interactions of selling, buying, saving, borrowing and investing money and capital. They are enacted on stock exchange floors, by electronic means, over the counter or behind closed doors, and they consist in localized dealings or in transactions over wide distances. A characteristic of financial markets is the great importance of intermediaries like banks, investment, hedge- and pension funds, financial consultants and brokers on the stock exchanges and their relations with their clients on either side of the market. The individuals representing the intermediary institution act on behalf of their clients, but they have also their own interests and their principal’s interests to consider. The relations between intermediaries and their clients are often asymmetrical relations characterized by differences in information, knowledge, power and influence, sometimes also in status and reputation. When the relations last over a longer period, there develop personal ties between the market actors themselves as well as between the intermediaries



and their clients. The longstanding relations between banks and enterprises belonging to the same network of firms in Japan and their basis in capital as well as personal ties has been an object of many studies (e.g. Abegglen, Stalk 1985, 214; Granovetter 2005). But also on stock markets special ties develop between professional market actors, and between them and some of their clients resulting in the special treatment of clients with large portfolios by stock exchange brokers passing on information which is not yet publicized to them. Baker has shown that in stock exchanges a “paradox of large numbers” (Baker 1984, 804) occurs which contradicts the neoclassical assumption that expansion of the market leads to an increase in competition. As the number of traders and brokers in the capital market increases, a decrease in competition has been observed because of collusion between the actors on the basis of their personal ties. Thus, also in the core area of financial markets there are social network relations in effect shaped continuously by the concrete ongoing interactions and, in their turn, influencing economic decisions and outcomes (see Orlean 1990).

Financial markets are embedded into society, but they are themselves distinct social systems and constitute specific social and cultural worlds (see Knorr-Cetina 2010). The behaviour of financial market actors is demonstrated most spectacularly in floor trading in stock exchanges where co-presence makes possible observation of others and exchange between actors by signs. Since they deal with time and money under conditions of uncertainty, expectations as to the actions of others play a great role resulting in an interdependence of expectations (Mieg 2007, 220). On top of these actors on stock exchanges commit themselves to this special environment, take positions in it and make promises; the seemingly typical exchange market based on a multitude of isolated transactions is actually a “nexus of engagements” (Knorr-Cetina 2010, 341). Technical means of communication and handling transactions change the situation by including artefacts (Kalthoff 2010, 274). Even under the condition of electronically mediated transactions which transform stock exchanges into “markets-on-screen” (Knorr-Cetina 2005, 48) social and personal ties play a great role. The real time transactions across the globe made possible by the Electronic Brokerage System (EBS) reveal what aptly has been called “global microstructures” between actors (Knorr-Cetina/Brügger 2002).

Apart from the existence of network relations in financial markets also the content and the quality of the relations is important. There are competing views on how network relations in the economy affect transactions. On the one hand, there are those that see them as conducive to collusion or even to criminal actions like insider trading or downright fraud. On the other hand, economic sociologists have placed emphasis on

the beneficial role of social network relations for the improvement of outcomes, for example, when they increase the chance for loans on good conditions for long standing bank clients (Uzzi 1999), or in the sense of providing protection against information asymmetry and opportunism (Baker, Faulkner 2004). The investor can get information about the reliability of potential transaction partners or about new investment possibilities through his/her network relations. Previous contacts with business partners can reduce the incidence of fraud or deceit, but networks may also widen the circle of possible victims of opportunistic behaviour and increase the possibility of losing one’s capital. In their research Baker and Faulkner showed that the negative role of socially embedded ties pertains to transactions undertaken for the sole purpose of committing fraud. Illegal practices like preferential treatment of investors are done also in order to keep the social ties intact, but in general, pre-existing social ties proved protective and beneficial (Baker, Faulkner 2004, 105).

The social and personal relations in financial markets concern the diffusion of information, the building and keeping up of trust between the partners and of confidence in the market or the financial system. Longstanding social and personal relations provide channels of communication through which information is passed on. They provide also the concrete experiences in which trust in fair transactions and confidence in the system are formed. Trust and confidence are especially important in financial transactions because money affairs are critical issues for most people and because uncertainty is high in financial markets. As Beckert has shown, trust is not something one has or has not, but is itself a relation between the trust-giver and the trust-taker (Beckert 2002). Since the fundamental characteristic of markets is uncertainty as to the actions of the other market participants, the former can develop a trusting attitude only based on some accommodating signals in the latter’s self-presentation. Personal trust can be seen in this way as an exchange of signals that leads to mutual understanding of the situation.

People enter financial marketplaces with a certain attitude of confidence or belief or also with reserve and caution; this may pertain to the workings of the market as such or the underlying system of regulations and policies. They may trust or distrust the objectivity and correctness of the data presented to them, the general fairness of dealings, the honesty of the professional actors, but these attitudes and opinions are based ultimately on concrete experiences involving personal and social relations and are put to the test each time the individual engages in such transactions. Problems arise when the norms and values of the agents in the financial world differ from those of the public they are supposed to serve.





### *Financial markets as social institutions*

Financial markets rely on social relations, but also on rules and norms, and the freer the market is the more it depends on those rules that are based on commonly shared values and beliefs. Also in financial markets where the long-range financing interests of enterprises meet the short-range interests of investors (Grzebeta 2007, 138), inter-subjective understandings on the appropriate prices and practices develop in the course of transactions.

This allows the formation of expectations as to the actions of others and foreseeing the consequences of one's own behaviour. The same function is fulfilled by the evolution of routines and the tacit acceptance of conventions in the course of prolonged interactions. Routines, conventions, rules, and norms serve an important function in markets because they make behaviour more predictable and thereby reduce uncertainty (Beckert 1996, 827). Financial markets are institutions in this sense of constituting complexes of norms that imply a differentiation of roles and result in complementary patterns of behaviour.

In recent social science studies the informal rules and norms that emerge from the interaction processes themselves have attracted much attention. The ties existing between banks and firms or the rules and conventions emerging between traders and brokers on stock exchanges influence their actions and shape expectations, thus, resulting in informal norms. Among the professional actors in financial markets norms of rational, correct and fair behaviour develop in order to keep up the status of the profession and the order of the system; to this end they are connected with sanctions on deviant actions. They include also norms of behaviour towards clients and the public which are important for keeping up reputation and confidence. Rules and norms, thus, emerge from the continuous operations of markets because of the interest of market actors in durable relations and in the continuous existence of the system. The routines and common standards of behaviour that are formed in situations constitute specific market cultures with their own "local rationality" (Abolafia 1998, 83). This often demands curtailing the individual profit striving by compromising, renouncing, postponing of actions in the interest of keeping up good relations, earning or retaining respect and reputation, staying engaged in the market as one's long-time business community etc.

Although the market actors pursue their own interests and those of their principals or clients, they usually also recognize the importance of cooperation and of observing certain rules that ensure the working of the system. Therefore, norms that support the effectiveness of long-term operations do not stand in sharp contrast to the individual economic interests as long as he/she values staying in business, belonging

to the professional group and enjoying good reputation which has been shown in a study among traders on Wall Street who acted on the basis of both norms and interests (Abolafia 1996). But norms are not only instrumental for reducing uncertainty and ensure the order of the market because social norms influence also the formation of interests of the individuals living in a certain societal and cultural environment. Swedberg emphasizes, therefore, that interests are formed within a social system and are not purely individual; as far as they are considered legitimate they are socially viable individual aims (Swedberg 2003, 290).

Norms that are effective in financial markets emerge informally and may then become formalized, but they are also formally introduced by an external authority to ensure the freedom or the order of the market, to avoid the risk of disruption by opportunistic behaviour or by unfair or illegal practices that could destroy public confidence in the system. Moreover, the working of financial markets must comply with the normative system of society which is determined by many different goals and concerns. Financial markets are institutions of the society, a view which emphasizes their integration into and coherence with the larger social, political and cultural environment.

Societies depend very much on the economy as the material basis of life and well-being of their members. Economic interests and societal values and norms are normally not opposed to one another as is often implied. The normative fabric of market society includes the valuation of economic rationality as long as it is not disruptive of communal interests and hence can be considered as legitimate. But in a society there are other concerns that must equally be taken into account for their own sake like health, education, social security etc., so that a society must satisfy and balance many different goals which cannot be reduced to that of economic growth and efficiency of the business sector alone as the one and only factor able to realize all those goals. Therefore, there must be norms putting limits on economic action and on markets or in other words: financial markets and the financial sector must be seen as a subsystem of society in which many different goals, norms and values exist.

Financial markets must be responsive to these other concerns, if they are integrated into the societal context. Societal norms must be directed to ensuring the coherence of the market function with the overall society and its goals and values. This is often discussed under the heading of the regulation of financial markets, but this term is misleading because financial markets are always regulated. The sociological perspective on financial markets as societal institutions emphasizes the aspect of their embeddedness into society and culture and their responsiveness to societal concerns.



### *Global capitalism and the hegemony of financial markets*

The globalization process has transformed financial markets into globally functioning systems. The actors and participants in them nevertheless come from specific institutional and cultural contexts with different values, normative systems, and social structures. Differences concerning individual profit seeking, running into debts, demonstration of wealth etc. are based on cultural values and beliefs concerning collective vs. individualistic orientations, the meaning and strength of social ties, the observance of formal norms and so on. Moreover, there are differences of economic regimes with consequences for the meaning of enterprise, the influence of labour relations, the role of state regulation and the safeguarding function of law.

The differences between regimes and societal systems do not disappear due to the globalization process, but the power of global financial markets and of the globally operating financial institutions has increased considerably, and they can exert great pressure on firms and states. As a consequence the practice of capital market financing and investing has increased greatly, which with regard to enterprises led to a transformation from a corporate logic to an agency logic oriented at serving the goals of the shareholders (Davis, Marquis 2005; Zajac, Westphal 2004, 435). Even though, in spite of external and internal pressure to shift to market finance, many countries outside the US are rather reluctant to do so, as has been observed with regard to Japan where the preference for “relational finance” (Jackson, Miyajima 2008, 33) is rooted in the social bondage within business groups. The examples of Japan and Germany (see Dore 2006; Fiss, Zajac 2004) show that this transition did not take place everywhere to the same extent, however, the influence from the global financial markets has resulted in changes like the restructuring of organizations, altering the enterprise culture and corporate governance as well as in changes of the balance of power in industrial and labour relations and in the distribution of income and wealth.

Financial markets have turned from providing infrastructure for the real economy to taking on the dominant role over the production system and the global economy (e.g. Lütz 2005). Since this involves also pressure on the political decisions of states worldwide one can speak even of the hegemony of global financial markets. The means which the financial system uses to effectuate control are based on a system of financial indicators forcing enterprises as well as institutions of the public sector and states to comply primarily with capital interests. This process of “financialization” of the economy (e.g. Krippner 2005) has led to interpretations of a fundamental transformation of the economic and societal regime from industrial capitalism to financial market capitalism charac-

terized by the large volume of financial transactions far outreaching the monetary value of the production of goods and services, by the transformation of assets into securities and the dependence of state finance on capital markets (e.g. Windolf 2005). Together with the revolutionary changes in the technological basis and the consequent changes in cultural techniques the great influence and power of the financial markets and the financial institutions on the global scale mark the present era as one of fundamental social transformation. But it is still difficult to say what role financial markets will play in the future. One reason for it concerns the consequences resulting from the present financial and economic crisis.

### **Aspects of the financial crisis**

With regard to the problems of 2007/8 the rhetoric of crisis is used to signal that they came as a surprising and sudden event. Although there is ample historical evidence of recurrent economic and financial crises (see Kindleberger 1978; Ferguson 2009), their explanations are difficult because social scientific theories focus on social order and the normal functioning of the economy, and crisis disturbs and disrupts the normal state of things. Economics offers theories of cyclical changes based on the upswings and downswings inherent in market processes, but focussing on the industrial production economy. As to financial markets there had been theories like that of Hyman Minsky pointing out their instability (Minsky 2008), but the dominant view was that financial markets are always efficient (e.g. Fama 1970). Mainstream economics does not attribute the slumps and bursts to the workings of the financial markets themselves, but to factors external to the efficient market model.

One of the most popular theories attributes the inefficiency in the economy to the irrationality of individual behaviour caused by the lack of knowledge or the opportunistic greed of speculators. Akerlof and Shiller refer to the “animal spirits” which Keynes already saw at work, and specify them as “confidence, fairness, corruption and antisocial behaviour, money illusion, and stories” which are not attributed to the system, but to the vagaries of human psychology (Akerlof, Shiller 2009, 5). On the basis of the irrationality argument the authors demand a stronger engagement of the state in financial markets. They point at the economic importance of fairness and the necessity of restoring confidence which can act as a multiplier for economic performance (Akerlof, Shiller 2009, pp 14). However, in most cases the assumption of irrationality does not really hold because the behaviour of individuals is often subjectively rational enough, but has negative collective effects. People are not acting irrationally if they take the actions and reactions of others into consideration or when they observe norms and follow conventional practices.



Imitation of others which Tarde had understood as a fundamental social law (Tarde 2003/1890), equally does not constitute irrational behaviour, especially when one has to decide one's action in a situation of uncertainty, but it produces a collective dynamic which is shown in the field of diffusion of innovation. Diffusion theory provides a general social scientific theory on the dynamics of the processes that may lead to financial crisis.

Imitation and contagion play a great role in financial markets when a situation of "optimistic uncertainty" (Spotton Visano 2002, 808) arises promising great profits from investing in new technology or in new financial products. In such an environment the first movers to invest in the innovation may yield a surprisingly high profit which induces followers to imitate this behaviour, a process in which social relations and networks play a crucial role. Diffusion effects arise especially around communication on stock exchanges, where trading is done in the open; in other sectors of the financial markets the transactions are less transparent as is the case in trading derivatives or in private equity deals. But even in these cases diffusion processes are relevant because of the spreading of information within the social networks. Not only hard data are being diffused, but also stories of successful investments making some big investors like Warren Buffett or George Soros into stars of the international financial media. Grand narratives of investments in emerging sectors like the "new economy" or the "life sciences" are produced and create a climate favourable for the financial markets (see Faust, Bahn Müller 2007). Diffusion may result in contagious processes and even produce a mania creating a bubble by expanding the market volume in great measure. According to the diffusion cycle the enthusiasm recedes when asset prices rise and the process reaches a turning point where investors cannot reap the profit they expected. As the negative information of disappointed expectations diffuses, the tendency to get rid of these investments spreads, prices fall and financial markets get depressed. This may result in a panic triggered by some event dramatically constraining the liquidity in the market, leading to bank runs and bringing about the collapse of financial institutions. One would assume that diffusion effects can be observed especially among inexperienced investors. But this is not necessarily so because "What is surprising is the failure of many people to infer basic investment principles from years of experience..." (De Bondt 2005, 165). This shows that in crisis situations knowledge acquired under normal conditions does not generally prove helpful.

Another perspective for the explanation of the specific aspects of the present financial crisis is provided by a historical look at the long range development of socio-economic structure. The prolonged period of economic growth in the second half of last century

in the US, in Europe, Japan and other highly industrialised countries has resulted in a rise of the disposable income of the middle classes in these societies. This, according to Deutschmann, led contrary to Keynes' assumption to the manifestation of a rentier-mentality among larger strata in the population (Deutschmann 2008, 191). However, such an attitude rests on further preconditions because the rise in disposable income as such could not produce a rentier-mentality among the middle classes without bringing about a change in habits and norms with regard to investing in securities instead of putting one's money in savings accounts. Of course, the high volume of disposable money led to low interest rates thereby discouraging conventional ways of saving. But on top of that the capital market had to be discovered by people as a means to invest profitably and safely. This presupposed the propagation of investment in financial markets as opportunities bearing little risk and by legitimizing the demand for high returns as a rational choice. This, in turn, was based on the emergence of rules and practices within the financial sector that came to spill over into the general public thereby changing expectations and attitudes.

In the case of the pension funds, it is true, the public had already invested indirectly in financial markets in the US, and there investing in shares and other securities was generally more widespread than in Europe as the phenomenon of the investment clubs shows which had existed already for some time, but expanded greatly over the last decades (Harrington 2008). Gradually, investing in securities became popular also in European countries even among people who formerly put their money only in savings accounts or invested in conservative ways. This was promoted by financial institutions bringing constantly attractive new possibilities for investment on the market and advertising them as offering high returns while bearing little or no risk.

The rise of the money volume in the financial sector and the low interest rates furthered also debt financing of consumption, purchase of housing, productive investment and public expenditure. Loans were packed and parcelled into securities and sold to investors mostly over the counter. They were thought even by experts to be insurances against risks from debts and, therefore, it seemed for many people to be the rational thing to invest in them. Many comments and studies, also within economic sociology, focussed closely on these new products and tried to understand their working. Interest was drawn before all to the derivatives based on underlying assets like futures, options and swaps; they are instruments for hedging risks, but can be used also for speculative purposes; since they are bought with credit money they have a high leverage. The securitization of assets originally consisting in loans and the great in-

crease of debt financing of investments in stock and derivative markets are a specific feature of the recent financial crisis. But problems started to appear when debts could not be repaid. Banks had turned to lending money increasingly also to borrowers who could provide little security which was especially the case in housing finance in the US where the ideology of the ownership society induced people to buy residences they could not really afford.

Beside firms, states and individuals also banks and insurance companies, investment and pension funds, had invested in these securities and suffered huge losses in the crisis. Since they are part of the financial system they should perhaps have known better. But evidently the huge expansion of global financial markets, the size of financial institutions and the dynamics of the global flows made them unable to see the risks. By trading, investing and lending they made money for themselves in large quantities, so that they could pay their agents, the CEOs and CFOs of banks, fund managers and others huge wages and bonuses besides stock options. These, therefore, had vested interests in enlarging the profits of their financial institutions. In this course they thought up also new rules and sought channels of information and promotion on a worldwide scale leaving behind the values and concerns of the social environments they came from.

Apart from the overheating of debts and investments the present financial crisis can be seen also as an instance in a historical sequence of events like the stock market breakdown in 1987, the Asian crisis, the collapse of one of the biggest hedge funds, the Long-Term Capital Management, and the burst of the new economy bubble etc. Although they all had different reasons, this sequence of occurrences could have been read according to Boyer as signals that all was not well (Boyer 2008). The fundamental changes in the world's financial markets that followed the removal of the Bretton-Woods-System and led to the globalization of financial markets can be seen to lie at the bottom of the rise in crisis incidence. Fligstein, therefore, focused not only on the financial markets and institutions as such, but stressed the role of the state and of the political turn towards neo-liberalism and the shareholder value-principle that brought about the global dominance of the financial system (see Fligstein 1996; Fligstein 2001). The financial crisis of 2007/8 leading to a troubled period in global economic affairs, therefore, can be said to have actually started already in the 1980s by changing the political and cultural bases of the economy.

The resulting enormous expansion of the financial markets on a worldwide scale brought about a process of dissociation of the financial sector from the real economy and of its differentiation from society. The global expansion brought about worldwide networks between investors and financial institutions as well

as the emergence of specific rules and norms of the financial system which emerged in the course of transactions. The financial markets became self-producing and self-legitimizing systems unconcerned with the values, norms and rules of society and consequently unresponsive to societal concerns, and thereby able to exercise one-sided pressure on states, enterprises and ultimately to the people. This view of the present crisis places it in the context of a longer historical perspective and shows the importance of re-embedding the globalized financial markets in society and economy.

### **Economic knowledge and the need for social knowledge**

The disembedding of financial markets was not only due to its becoming dominant with regard to their influence on the real economy and their power over states and politics, but it is expressed and has been built up also by the specific kind of financial knowledge and its distribution. Financial knowledge is "performative". The concept which originally was coined in the context of the philosophy of language and taken up by economic sociology, refers to the effects of science, in this case economics, outside the scientific context. Callon has called this the "embeddedness of economic markets in economics" (Callon 1998) meaning that the theories and methods of economics have effects on the practice of business and management in the sense of producing "calculative agencies" (Callon 1998, 4). Performativity implies, however, also a close interdependence between practice and formal knowledge, because practical experiences are fed back to some extent into theory and economics education.

Economic knowledge that is produced and used in financial markets is couched in specialized language, and its central elements are quantitative indicators, credibility ratings and stock exchange analyses. The knowledge is based on economic theories, methods of accounting and calculating and on mathematical-statistical techniques; it provides "calculative frames" that rationalize the markets (Beunza, Garud 2004) and the quantitative-mathematical form suggests objectivity, certainty or the calculability of risk and replaces trust in persons by trust in figures (Power 2007, 135). This knowledge is, however, a construction which serves the ends of the financial system, but it is unclear whether it reflects the fundamental values of the real economy or serves goals from outside the markets. The diffusion of indicators, analyses and comments are often intended to give an impression of foresight and of calculability that does not exist in reality, to produce confidence in future developments or to placate diffidence and anxiety (Kalthoff 2004, 165). They should influence investors' or creditors' risk expectations and induce enterprises to customize their structure and strategies according to the principles underlying the ratings which – as a manifestation of





the performativity of the financial knowledge - leads to gaming the system by the firms (see Faust, Bahn-müller 2007; Rona-Tas, Hiß 2008).

Financial knowledge is unevenly distributed; firstly, because people are unequally integrated into the financial system, some taking an active part in it, possessing credit cards, bank accounts, shares etc., others still remain outside the social bondage of money. People also have different levels of education. Studies linking investment decision-making with value and risk perceptions of different groups of investors showed that higher educated people in Europe express more distrust of the financial system than less educated ones (De Bondt 2005, 165). Such findings suggest that higher educational level as such results in a greater awareness of the risks of financial markets.

But financial knowledge is unevenly distributed also as a reflection of the disembedding of the financial system from the surrounding society. This is not only due to the flow-world character produced by the technical infrastructure (see Knorr-Cetina 2005), but is the manifestation of selective advantages for those who get at information at first hand and before the publication of prices, rankings and ratings. This is achieved through the use of network relations, power and long engagement in the market as professionals or investors on a large scale. As a consequence financial markets usually benefit the wealthy and those in close contact with their working, enabling them to draw up their own rules and norms hardly restricted by the surrounding social and cultural environment.

To counteract the disembeddedness of the financial sector it does not suffice to spread practical skills

in handling money, offering financial literacy to the masses, but this must be complemented by social knowledge on all levels. Financial knowledge must encompass a consideration for the larger effects of financial markets on society and on culture; financial markets must be embedded into social contexts not only institutionally and politically, but also cognitively and culturally (Zukin, DiMaggio 1990, 14). Firstly, the actors in the market must be made to understand that the concentration on indicators and ratings and thinking up new ways to make money is not enough. The crisis was caused among other things by a lack of knowledge on behalf of the experts in the financial sector, that is, not a lack in the economic knowledge or financial expertise, but in understanding that all economic action and financial markets in particular are based on rules and norms, on values and beliefs, and function along relations that encompass much more than efficiency, and especially that financial markets are institutions that should serve society. Secondly, people should understand the function of the financial sector for the economy and for society, and see what their own position is and what their subjective social and economic situation demands. What is needed is "social literacy" that makes people able to see money and finance as part of socio-cultural life and to relate their actions to the values, norms and goals of society. Financial knowledge and financial literacy are very important for our age since the financial aspects have become so prominent in economy and society. But exactly because of this importance of the financial affairs it is necessary to embed financial knowledge into social knowledge.

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Walter Otto Ötsch and Jakob Kapeller

## Perpetuating the Failure: Economic Education and the Current Crisis

While the current financial crisis had an overwhelming impact on the global economy, its effect on economics as an academic discipline has been negligible. This paper explores the relationship between the financial crisis, mainstream economic theory and the education of economists. In a nutshell it shows that (a) current economic education leaves students illiterate with respect to events like the financial crisis, (b) mainstream economic theory is unable to systemically explain the financial crisis and (c) this situation will be unaffected by the recent events. On the contrary economic education will stay pretty much the same, since it incorporates a set of ideas, perceived as influential, well-established and important by the economic community.

### Content:

1. Introduction
2. Basic problems of economic education
3. The role of textbooks in economics education
4. Failures of neoclassical reasoning
5. Effects of the current financial crisis on the teaching of economics
6. Concluding remarks

### Keywords

performativity, paradigm, neoclassical economics, economic education, financial crisis

### 1. Introduction

The emergence of the current financial crisis in September 2008 (the bankruptcy of Lehman Brothers followed by a successive collapse of the interbank market, which lead to a decrease in credit-induced demand and GDP) was a surprise not only for the lay public, but also for most professional economists and other experts. Dirk Bezemer (2009), for instance, has identified only 13 experts, who successfully anticipated the current crisis in or before 2006. Additionally also the Bank for International Settlement (BIS) in Basel had a premonition of the current financial crisis (e.g. Brio and Lowe 2002).

This collective failure of the economics' profession (Colander et al. 2009), which was accompanied by a no less systemic malfunction of business journalism (Starkmann 2009), is comprehensible from a critical viewpoint on established economic theory. In sharp contrast to other social sciences, economic theory is, as is well known, arranged around an authoritative theoretical core, commonly termed neoclassical economics (see: Dobusch and Kapeller 2009). The neoclassical approach thereby dominates the economics' profession. Hence, most economists are committed to one of the several variants of neoclassical economics (roughly 80% of the economists organized within the *Verein für Sozialpolitik* avow themselves to neoclassical economics; see: Frey, Humbert and Schneider 2007). In this spirit one may interpret the failure of academic economists to predict and thoroughly ana-

lyze the current economic crisis as a severe defect of the neoclassical paradigm.

### 2. Basic problems of economics education

While neoclassical economic research is a relatively broad and manifold domain, at least within certain paradigmatical boundaries, the teaching of economic theory suffers from a much narrower perspective. Economic education almost always starts with and focuses on (variants of) the core of neoclassical theory: the supply and demand framework and the General Equilibrium Theory in the tradition of Arrow and Debreu (both are formally equivalent; see below). The basic features of these models also define the core elements of economic education. This self-imposed limitation characterizes all leading economic textbooks, which basically serve as an introduction to General Equilibrium Theory.

In this sense a basic problem of economic education is its nearly exclusive focus on just one theoretical conception, respectively paradigm. This rather narrow approach seems somehow tenuous, since the problems tackled by economics are similar to that of the other social sciences with respect to the fact they are contingent in time and space: general laws or basic propositions holding for all economies at a given time or for just one economy over all times seem, thus, improbable to find. This manifoldness associated with the problems of the social sciences, including genuine economic problems, demands a variety of perspectives on these problems and hence also a variety of theoretical and empirical approaches in academic teaching and research. In short, while multidimensional problems would also require multidimensional theoretical answers, modern economics mainly relies on one unique perspective for analyzing economic problems, namely the perspective of neoclassical economics. This lack of pluralism is especially problematic when it comes to economic education.

This argument corresponds with the citation habits of leading mainstream journals: theoretical perspectives deviating from the mainstream economists' attitude (like institutional, post-Keynesian or evolution-



ary approaches) are not discussed within neoclassical research (cf. Kapeller 2010). In contrast, they are nearly completely neglected by mainstream economists leading to tight paradigmatical borders between competing fields of research and, thus, reducing the scope of the debate within mainstream economics.

When it comes to economics education these borders are even tighter than in economic research (see also: Wilson and Dixon 2009). Additionally, they are also more problematic in the context of education and teaching, since the basic lectures in economics are delivered to a wide audience of students ranging from Law to Business Administration and Sociology. Thus, these basic lectures shape not only the ideas of future economists, but also those of a broader intellectual elite, which later occupies important positions in economy and society (like managers, government officials, business journalists or college teachers).

Most of these students only take a few lectures in economics before going into business, law, journalism or pedagogics. Regrettably, most of them have not been exposed to a greater variety of neoclassical models, not to speak of alternative theoretical conceptions, during their economic education. Thus, these rather parochial basic lectures have a strong impact on shaping what educated people generally think about markets, consumption, economic growth or simply “the economy”.

Moreover, economic teaching is not only exhibiting a monist attitude when it comes to issues of theoretical diversity, but neoclassical economics also presents itself as a primarily ahistorical scientific endeavor thereby further limiting its conceptual variety. Many economists are receptive for an ahistorical view on economic issues, since they themselves have in many cases only little knowledge on economic history or the history of economic reasoning.

The common trend that courses devoted to these fields have been marginalized within the economics education (Chang 2004) is already reflected in a panel-survey on the attitudes of German-speaking economists: While in 1981 85% of the profession believed that business cycles could only be understood in conjunction with the general historical development, in 2006 77% principally agreed on the statement that “inflation is primarily a monetary phenomenon” (Frey, Humbert and Schneider 2007, 368-369). This corresponds to the idea, that business cycles can be modelled without any reference to historical events by using the standard equilibrium-approach. Consequently economic history or the history of economic thought (which do not even appear in any question of the 2006-survey cited here) is thought to be uninspiring or unnecessary for understanding real-world economic problems.

Moreover, this narrow focus has successively led to the exclusion of the “big economic questions” from

economics curricula, because the latter are strongly tied to the economics department’s research practice:

“These include questions such as whether capitalism or socialism is preferred, what the appropriate structure of an economy is, whether the market alienates people from their true selves [...]. These ‘big think’ questions are ones that are worthwhile to teach, but are generally no longer included in the economics major because they don’t fit the disciplinary research focus of the profession.” (Colander and McGoldrick 2009, 6)

Similarly important national and international (policy-)institutions, like parliaments, central banks, the IMF, or even financial markets, are mostly neglected throughout the economics curriculum. Economic teaching nowadays instead focuses on mathematical and statistical training to allow economic apprentices joining the paradigm-specific debates by embodying advanced formal and econometric techniques as is put best by a classic piece on the sociology of economics:

“The young Econ[omist], or ‘grad’, is not admitted to adulthood until he has made a ‘model’ exhibiting a degree of workmanship acceptable to the elders of the ‘dept’ in which he serves his apprenticeship. [...] If he fails to do so, he is turned out of the ‘dept’ to perish in the wilderness.” (Leijonhufvud 1973, 329-330)

Consequently also introductory textbooks further strengthen this attitude by focusing on economic models, instead of economic history or (real-world) economic statistics: most pedagogic examples do not rely on statistical data but on fictitious values invented at the desk of the textbook-author in order to fit the courageous assumptions necessary for developing the respective economic model (Benicourt 2005, Ötsch 2009).

As a result of this increasingly one-sided education young economists in the German-speaking area have a much stronger confidence in neoclassical economics than their older counterparts, who were exposed to different research paradigms and interdisciplinary courses on economic history or sociological theory during their education (Frey, Humbert and Schneider 2007, 362-363). In his recent book David Colander (2009) argues that the tendency to substitute Europe’s traditional curricular forms in economics for their US-counterparts is further narrowing and weakening economics as an intellectual endeavour.

### **3. The role of textbooks in economics education**

Economic textbooks are powerful devices, which serve as the main vehicle for the international standardization of economic education. While there exists in principle a broad variety of different economic textbooks, a closer examination shows that the collection of topics covered as well as their specific treatment follow



a rather standardized routine, rather independent of the concrete author or publisher (Stiglitz 1988, Lee and Keen 2004, Grimes 2009; for notable exceptions see section 6) “As a result most new textbooks are, generally speaking, clones of existing ones.” (Hill and Myatt 2007, 58)

The typical textbook starts with a discussion of some fundamental principles and then turns immediately to the supply and demand framework. The intended purpose of this model according to its apologists is to show “how markets work”, i.e. to illustrate the basic idea of the “market mechanism”. Additionally, the model of perfect competition is developed mostly by utilizing three distinct parts: the theory of the household, the firm and the market. While the supply-demand scheme is applied to a series of simple examples, suggesting it is a generic tool for an analysis of markets, the model of perfect competition is presented as a special case based on overly narrow assumptions. In fact, the perfect competition model is a popularization of the General Equilibrium Theory of Arrow and Debreu. While the latter is highly formal in nature, the former represents a simplified, often diagrammatic, textbook version of the theory, which can be understood as an introduction to General Equilibrium Theory.

While most textbooks differentiate between the supply and demand scheme and the model of perfect competition on a rhetorical level, they are, in fact, formally equivalent. Therefore “both” models can be depicted by the well-known supply-demand scheme, it is the main illustration of the neoclassical paradigm’s core. Generally many neoclassical economists believe that the supply-demand model and/or the model of perfect competition resemble the genuine “market-mechanism”, as the single most important mechanism working in any economy. Mankiw’s prominent *Principles*-textbook, for instance, depicts the supply-demand schedule 91 times on 850 pages (Mankiw 2001, reference is made to the German edition). In none of these 91 cases it is discussed whether the institutional preconditions regarding the applicability of model are fulfilled, maybe because this question is anything but easy to answer (see Ötsch 2009, Chapter 6). In all textbooks the supply demand model and/or the model of perfect competition is broadly applied to markets where the assumptions are plainly untrue (e.g. to the effect of taxes in cigarettes in USA, a market with only four firms). Consequently there is no discussion whether this model can be used at all or how to evaluate empirical evidence against different models. In this spirit Hill und Myatt (2007, 58) discuss an “overemphasis on perfectly competitive markets in microeconomics principles textbooks”.

Completing the model of perfect competition marks the halfway point of nearly all textbooks (many courses don’t spend much time on the second half of the text-books). Subsequently other types of markets

are discussed, like monopoly or oligopoly and the final chapters usually deal with factor markets and other topics like the role of government. But references are always made to the model of perfect competition as a ready-to-use hermeneutical tool and a benchmark for policy decisions. In this spirit “it is not surprising that the perfectly competitive framework is seen by many students as synonymous with the microeconomic analysis of markets” (Hill and Myatt 2007, 60).

The uniform features in economic textbooks discussed here could have historical reasons as well. The first prominent textbook in USA after WWII was that of Paul A. Samuelson (starting in 1948, see also: Colander and McGoldrick 2009, 31-32; Skousen 1997). Economic textbooks up to now are mostly structured after the Samuelsonian archetype, covering very similar material presented in a very similar mode. The Samuelsonian classic focused on presenting simple formal models of economic mechanisms, which were at the core of the text, combined with vague and sketchy real-world examples, to give some intuition about the supposed explanatory value of the models. Samuelson thereby was well aware of the fact that defining economics’ core knowledge via a widely distributed standard textbook may have an impressive societal impact: “I don’t care who writes a nation’s laws, or crafts its treatises, if I can write its economics textbooks.” (Samuelson, quoted in Skousen 1997, 150)

The Samuelsonian focus on simple diagrammatic models, in some cases backed up by a little algebra, as the core and fundament of any economic education has been perpetuated till the 21<sup>st</sup> century. Such an approach is, perfectly compatible with an emphasis on the simple diagrammatic version of General Equilibrium Theory as discussed above, which was forced by the influential “Chicago School of Economics” as well.

Many publishers of modern textbooks tend to further enforce this tendency of a self-reproducing teaching-standard, since most new textbooks are subject to a thorough peer-review process. In this context textbook-authors report that already minor changes in the standard presentation (e.g. terminological changes), are regarded as conceptual flaws by the reviewers (having the standard Samuelsonian-Chicago conception of a textbook in mind) and causes publishers to demand changes by the authors. If the authors refuse to make the demanded alterations publishers reduce the marketing spending associated with a certain textbook (thereby reducing the authors’ income) or drop the project as a whole.<sup>1</sup>

1 At the 2010 ASSA-conference in Atlanta David Colander reported of heavy objections against his move to change the name of the „Aggregate Demand Curve“ in his intermediate macroeconomics-textbook to „Aggregate Equilibrium Curve“ for reasons of consistency (see also: Colander 1995). Consequently his publisher threatened to „turn the book down“, which lead Colander to use the traditional label.



Moreover, there are also rather practical reasons for the popularity of standard economic textbooks: They are, from an economic perspective, rather cheap, i.e. “efficient”, when used to prepare economic lectures, since economists already know the relevant models in depth and just have to adapt this knowledge to the presentation in the textbook. Additionally, there is a lot of auxiliary material accompanying those textbooks, like ready-made power point slides for presenting the material in class, specific “teacher-editions” of textbooks or various web-based resources like data-bases with exam-questions and their respective answers.

Peter Grimes (2009) investigated the question why the alternative “social issues”-approach to economic theory, which puts problems instead of models at the centre of academic teaching, has not succeeded in replacing the traditional mode of acquiring economic skills. His main conclusion (Grimes 2009, 96) is that “after a while, the marginal cost of preparing to teach a traditional principles class drops toward zero while the marginal cost of preparing to teach a social issues course remains relatively high.” Thus, economic textbooks also function as a kind of “labor-saving device”, which allows for a reduction of time spent in preparation for courses. This is, of course, beneficial for the individual scientist since “when asked about the importance of teaching versus research in promotion decisions at major universities, one hears that practice dictates 90 to 95 percent of the decision based on research output.” (Colander and McGoldrick, 2009, 28) Devoting only a minimal amount of time to teaching preparation is thus an immediate imperative for the ambitious *researcher*, thereby reassuring that the standard textbook will be her or his preferred choice and guideline.

#### 4. Failures of neoclassical textbook reasoning

The neoclassical focus in economic education has a variety of different effects. Among other things it may illuminate, why economists and similarly educated professionals (speculators on financial markets, business journalists...) were not only unable to predict the financial crisis, but, moreover, believed that such an event was possible at all (for the prognoses of German research institutes, see the list in Nienhaus 2009, 19). In our opinion, neoclassical textbooks economics lacks the essential tools to explain why capitalist economies are, to some extent, prone to crises in general and financial crises in particular.

This claim may seem somehow odd, since, as already mentioned, neoclassical research contains a broad spectrum of models, some of them especially devoted to explaining the notoriously unstable behavior of financial markets (e.g. Hart and Kreps 1986, De Long et al. 1990). While such contributions are sometimes even prominently discussed and highly cited, they in-

roduce new assumptions or modify already existing ones and, thus, deviate from the simple textbook example (while preserving many of its core ideas). Hence, they are (a) not taught within the standard curriculum leaving the vast majority of students unaware of their implications and (b) only familiar to small circles within the economic community, which are especially considered with the instability of prices (on financial markets).<sup>2</sup>

But the majority of professional economists follows those theoretical concepts which are in line with the standard textbook reasoning. Well-known examples are the main models in modern finance, like (1) the efficient market hypothesis – it declares financial markets as always in equilibrium -, (2) the capital asset pricing model – it defines the main relationship between risk and return, (3) the Modigliani-Miller theorems – which say that the way in which a firm finances its real activities does not affect the cost of capital, i.e. finance can be separated in some way from production activities – and (4) the Black-Scholes-Merton option-pricing models which underlies a broad range of concrete calculations e.g. in derivative markets. All of them are in line with the Arrow-Debreu model of General Equilibrium, the core model of neoclassical textbook economics. In this context it seems appropriate to illuminate some of the central deficits in this reasoning.

#### 4.1 The concept of the actor

Neoclassical economics rests on two basic concepts: (1) of man as a fully rational, but socially isolated agent, and (2) of the “market” as a central coordination device of economic activities. Both are based on a strict reductionism: social phenomena as such are, more or less, inexistent, since they are always explained by referring to individual behavior (methodological individualism, firms are modelled analogous to single persons or households, see: Ötsch 2009, Chapter 5). The explanatory capability of the neoclassical approach is, thus, inevitably linked to the suitability of its conception of the individual actor.

Regrettably the concept of human actor in neoclassical economics is fairly limited. It is considered as a information processing machine (Mirowski 2002): data from the outer world, e.g. prices in markets, are processed by an “inner” program, the results are perceived as “behavior” in the outer world. Therefore, the agent follows a simple “stimulus-reaction”-scheme (Blaseio 1986).

Such an approach is only plausible if the “internal program” is constant and immutable over time. It serves as a stable transformational field, which guarantees the conversion of external data into a unique and unambiguous result. Thereby the “internal pro-

2 We have to thank one of our reviewers for a hint on this specific debate.





gram” consists only of a set of preferences and a processing algorithm (e.g. “maximize!”). Preferences, thus, occupy a central and decisive role in the neoclassical image-of-man, they *define* him or her.

But the concept of preferences is based on very restrictive assumptions (Ötsch 2009, Chapter 4). For instance, they do not change (neither through time nor through interaction with others, see: Fullbrook 2005) or they are not subject to any social, societal or cultural influence (Wolfson 1994). In textbooks preferences are mostly explained by discussing some rudimentary assumptions, which are, in turn, illustrated by fictitious examples (Benicourt 2005).

Moreover, most of these restrictive assumptions contradict conventional knowledge concerning human cognition (as found in cognitive sciences) and the implications of cultural conditions for individual behavior (as found in cultural sciences). Individuals in neoclassical theory act like human calculators or like computers running a very simple software, which is stable, exogenously given and does not change in response to different circumstances. People in neoclassical basic models cannot alter their models. They have no ability to reflect themselves, to adapt their mental models and to learn. “Behavior” of this kind has nothing to do with real human actions as they appear in the normal course of life. Additionally, there

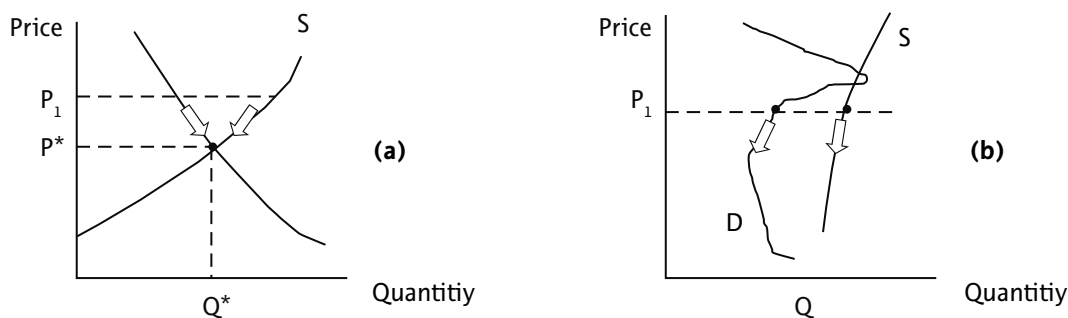
is, of course, no self-reflection or reflection about the world or the economy – the individuals in neoclassical economic theory have no self-image and no self-consciousness (they are automata, like animals in Descartes’ world view).

#### 4.2 The concept of market

The basic idea of the market is represented by the supply-demand schedule, where the price of a commodity is determined by the intersection of supply and demand (see figure 1(a)). But even this seemingly simple model is based on a series of far-reaching assumptions, which are well-known to specialists but not mentioned in almost all introductory textbooks.

A prominent example is the so-called stability problem. It asks whether a market starting from a situation where supply (S) does not equal demand (D), e.g. at price  $P_1$  in figure 1(a), can reach equilibrium ( $Q^*$ ) by itself. In Figure 1(a) this seems no problem. If at price  $P_1$  supply S exceeds demand D then it could be plausibly argued that producers lower the price. This would induce growing demand and shrinking supply. So the market would “move” along the arrows and finally arrive at a stable equilibrium. Here we have a price  $P^*$  which corresponds with a quantity  $Q^*$  where supply equals demand.

**Fig.1: (a) a stable, (b) an unstable market for a consumer good**



But the dynamic feature of the market strongly depends on the actual form of the supply and demand curves. Figure 1(a) represents the “standard case”: as the market price rises, supply grows and demand decreases. But the shape of these curves depends on many further assumptions inside the model. For instance, we have to assume increasing average costs, which does not hold for many empirical cases, in order to preserve a well-behaved supply curve as depicted by figure 1(a). In figure 1(b) we look at a specific demand curve. If at a price  $P_1$ , where supply exceeds demand, firms lower price then the supply surplus would rise further and further. Thus, the market shown in figure 1(b) is notoriously unstable and cannot reach any equilibrium-state.

On a more general level we can ask which conditions must be fulfilled, to exclude the possibility of “global instability” in a general equilibrium framework (with all its idiosyncratic assumptions). This question has been discussed intensely for more than 50 years (for an overview see Costa 1998, 78ff.) leading to a definitive result: global instability can only be excluded if we impose further restrictive assumptions on the structure of preferences, e.g. we must assume (a) that all households have the same preferences, which implies they are identical, or (b) react in the same way to changing income (Keen 2002, 45f.). Of course, these assumptions are not empirically justified. Hence, it is unsurprising to note that “the results [...] concerning global stability are unquestionable negative.” (Ingrao



and Israel 1990, 361) Neoclassical theory, thus, does not show “how real markets work”. At its best the supply and demand framework is an inspiring heuristic for analyzing price-quantity relations on certain markets (this can be achieved by dropping all background assumptions), at its worst it shows an utopian image of an ideal market with a strong ideological aftertaste.

The stability discussion and its far-reaching consequences are seldomly mentioned in microeconomic textbooks. A notable exception is the textbook of Mas-Colell, Whinston and Green (1995). But while it explains the main theorems of the stability problem, it drastically understates its importance: “The center of our science”, the authors argue, is constituted by “the equations of equilibrium”. “The determination of dynamic laws of change” on the other hand is the main feature of “other sciences, such as physics or even ecology”, i.e. they are not relevant for economics (1995, 620). But restricting theory only to equilibrium points permits an explanation how these equilibria could be reached and, thus, dramatically restricts the scope of neoclassical equilibrium theory.

But equilibrium points include unresolved puzzles as well. In the neoclassical model of perfect competition all agents (households and firms) follow prices given by “the market”. Nobody determines prices, this does “the market”. But who is the market? The “market” in this conception is an impersonal and anonymous authority, which exists independently of individual transactions and is not controlled or directed by any human entity. The condition “supply=demand”, which holds for market-clearing prices, is only a theoretical assertion without empirical confirmation. In fact, it is rather dubious, who or what determines prices in this context (it is not the market participants, because these only accept the *given* prices). Hence, “equilibrium prices” in economic models are mostly deduced directly from the relevant assumptions (e.g. that “markets *are* in equilibrium”, an assumption as utilized in theories on financial markets). What the theoretical concept of *the* market means from an empirical or institutional perspective remains fairly unclear: we simply do not know, what is meant by the neoclassical idea of *the* market when confronted with empirical and institutional settings of a given economy (it lacks appropriate correspondence terms to translate between theory and reality; see: Nagel 1963, Ötsch 2009, Chapter 6).

#### **4.3 Relation to the analysis of the current crisis**

The arguments discussed in the two preceding subsections are a helpful guide to understand the weaknesses of contemporary economic theory when it comes to predicting and/or analyzing the current financial crisis. Neoclassical agents live in a fixed reality. It can be perceived without any ambiguities. Moreover the

collapse of the interbank-market in September 2008 can be understood as a dramatic change in perceptions, interpretations and expectations. The mutual ideas and views central protagonists (banks, investors, speculators) had of each other have been drastically altered. As a result risky assets have been reevaluated on a broad scale. This sudden cleavage between planned actions, actual activities and blurry expectations led to strong imbalances and systematic disequilibria on various levels. In this context it is, of course, regrettable that the standard conception of the market is based on the idea of a stable, self-regulated equilibrium and, thus, unsuitable to analyze situations of systemic imbalances and irregularities.

Moreover, this concept of the market is free from any historical connotations: historical knowledge on financial crisis (e.g. Kindleberger 1978) or the idea to distinguish between different historical episodes with different decisive characteristics (e.g. current financial capitalism as opposed to fordism) is, thus, simply inapplicable in the ahistorical model world of contemporary economics. From this perspective it is not surprising that mainstream economists couldn’t foresee the upcoming crisis (they also couldn’t predict or systemically explain the subprime-crisis, which started in 2007 with similar, but smaller, effects as compared to the current crisis). For instance, the original general equilibrium model does not include money (it cannot even be integrated into this approach, see: Ötsch 2009, 269ff), therefore, it shows a “capitalism” without money. Most macroeconomic models used for prognoses do not include financial wealth and banks interacting with real sectors (prominent examples are the Washington University Macro Model with 600 variables used in US politics, or the Small Global Forecasting Model used by the OECD, see Bezemer 2009, 18ff.). Most models dealing with financial markets follow the efficient market hypothesis. It says that all relevant information is included in actual market prices. This implies that nobody could achieve permanent gains from financial markets and (that’s included in its strong version) bubbles could not be possible at all.

In all these widely used models crises do not appear since the focus is on the self-regulatory capacities of *the* market. This habitual overemphasis systematically blinds economists: they simply do not recognize (any more) that crises and bubbles are an essential feature of capitalist economies and, thus, there is no economic toolbox to analyze, let alone predict, financial crisis as the current one.

#### **5. Effects of the current financial crisis on the teaching of economics**

Contrasting the path-dependent aspects explored in section three with the recent experiences from the current financial crisis might lead to the conclusion



that this major historical event would also be considered as a crisis of neoclassical reasoning. While some economists (and non-economists) have articulated critical statements against mainstream economic theory<sup>3</sup>, this is still a minority position. In spring 2009, for instance, 83, mostly elder, German economists issued a critical statement for more realism in analyzing economic policies, thereby arguing against modern macroeconomics (Frankfurter Allgemeine Zeitung, April 27, 2009). But the opposite viewpoint gained support from 188 economists (Handelsblatt, June 8, 2009) who argued in favor of “internationally competitive” economic theories.

The majority of economists do not consider the actual crisis as a crisis of economics as well. Only some prominent economists (like Nobel prize winners Joseph Stiglitz and Paul Krugman, see Handelsblatt January 11, 2010) took the economic crisis as an occasion to criticize established economic reasoning. Evidently for most economists it is very hard if not impossible to get distance to their own thinking and detect a crisis of their paradigm. Their acquired knowledge in standard economic theory is still highly remunerated in the scientific community. In media, in prominent boards and as policy advisers we find the same neoclassical economists as before the financial crisis, e.g. in the German expert advisory board on economic policy (Sachverständigenrat).

In this way there is no general debate on how to change economic education. In this spirit leading economic textbook authors comment on the issue as follows:

„Despite the enormity of recent events, the principles of economics are largely unchanged. Students still need to learn about gains from trade, supply and demand, the efficiency properties of market outcomes, and so on. These topics will remain the bread-and-butter of introductory courses.” (Gregory Mankiw)<sup>4</sup>

„More economic research (and teaching), not less, is the best hope of both emerging from the current crisis and of avoiding future ones.” (Doug McTaggart, Christopher Findley und Michael Parkin)<sup>5</sup>

So contrary to what one would expect, leading textbook authors don't seem to recognize any necessity to change the basic commitments of economic education. Instead, they recommend “more of the same”, i.e. a more intense education in economics; a claim that is sometimes even made for extending the existing

body of economic education into the sphere of public schools to facilitate “rational” behavior and, hence, improve economic performance (e.g. in Cassel 2004).

Another interesting occasion for observing the economic community's reaction to the current financial in terms of teaching, was provided at the ASSA-conference 2010 in Atlanta, where a panel of highly decorated economists (Benjamin Friedman - Harvard, Raghuram Rajan - Chicago, Robert Shiller - Yale, Alan Blinder - Princeton) was assembled in a session titled “How should the financial crisis change how we teach economics?” Interestingly, with the exception of Alan Blinder who presented plans for some minor changes in his macroeconomic textbook, none of the speakers made a single concrete suggestion on how to change economic education, economic curricula or economics' basic pedagogical tools (diagrams, textbooks...). All panelists stuck to general, uncontroversial and vague statements such as: “economics should be practically useful for students” or “economics should be more realistic and care about institutions”. In sum, the session confirmed the impression that the basic features of the economic education will stay as they are.

When looking more specifically for teaching material devoted to explain the financial crisis within the standard economics curriculum one comes across tools like the “teaching note” of Stinespring and Kench (2009). This has been downloaded over 300 times and frames the financial crisis as a prisoner's dilemma, focusing solely on the interbank loan market. In this context the current financial crisis is presented primarily as a crisis of trust between different banking institutions, thereby abstracting from the systemic reasons of the current financial crisis. Thus, also when it comes to explaining the current crisis to students, economists prefer to stay within the boundaries of standard neoclassical theory even if this, as in the current case, leads to a drastic oversimplification of the matter at hand. So, altogether, the current financial crisis doesn't seem to have any decisive impact on the way economics is taught.<sup>6</sup>

## 6. Concluding remarks

Based on the arguments presented in the preceding sections some relatively clear-cut suggestions for the reform of economics curricula can be delineated. We will conclude this paper by discussing some major implications of our argument so far.

First, it seems necessary to implement a pluralist orientation within basic economic education: when stu-

3 As summarized by Nienhaus (2009). Collections on the current debates can be found on [www.voxeu.org](http://www.voxeu.org) and [www.blicklog.com/finanzkrise/wissenschaft-und-medien](http://www.blicklog.com/finanzkrise/wissenschaft-und-medien).

4 see „That Freshman course Won't be quite the same”, New York Times, [23 May 2009].

5 see entry „The State of Economics” in East-Asia Forum, Mai 21, 2009 online: <http://www.eastasiaforum.org/2009/05/21/the-state-of-economics/>, [10 July 2009].

6 Similar things can be said about the trends in economic research: The widely disseminated paper of Colander et al. (2009) on the current crisis and the state of the economics profession basically recommends „more of the same”, i.e. more advanced mathematics, more sophisticated statistical techniques, more complex models and so on (see also the debate in the *real-world economics review*, issues 48-50).



dents are introduced to different theoretical approaches they may debate their relative merits and develop an awareness about the weaknesses and strengths of competing theories and the inherent complexity of economic activities. In turn, they would possibly be more inclined (and also more able to) analyze given problems with methodological and theoretical instruments appropriate to the questions at hand instead of using an invariable set of methods prescribed by tradition (for an overview of concrete suggestions for a pluralistic economic education see: Elsner 2006, Reardon 2009 or Rima 2011). Additionally, such a reform would favor (1) the return of the “big-think questions” to economics’ curricula, i.e. those which make economics an interesting subject, (2) as well as a problem-centered approach to teaching economics.

Second, an economic education should supplement its core training by courses in related areas such as economic history, sociology, political science or philosophy in order to provide students with some context knowledge on economic systems (what is the history of an economy? where do its institutions come

from? what’s the relation between economy and society? ...). The history of economic thought should, from our point of view, return to a central position within economic education: teaching students about the curious and idiosyncratic developments in economic reasoning broadens their perspective and gives them a glimpse on the variety of solutions to questions regarding the “economy” developed over time. In any case this would be a more balanced treatment than providing students with extensive textbook knowledge, which is presumably based on current knowledge but in fact lags about 30-50 years behind.

Third, and maybe most important because institutionally decisive, we would argue for the usage of a more balanced set of basic textbooks incorporating a broader variety of theoretical approaches (as: Stretton 1999, Lavoie 2009 or Reardon 2009) or at least a broader perspective on established economic theory (as: Klamer et al. 2010). An even more recent example is given by the forthcoming textbook of Elsner et al. (2011), which is based on evolutionary and institutional approaches to microeconomics.

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Mary Koutselini

## The Financial Crisis in the Light of Modern – Meta Modern Discourse: Re-Conceptualising the Modern Knowledge and Financing System

The main aim of this paper is to contribute to the debate on today's financial crisis through the Modern- Meta Modern discourse. It is argued that the debate of the financial crisis cannot be reduced solely to economic causes and that the deeper causes of the crisis are mainly philosophical, ethical, educational, and social. Most of the already proposed antidotes for today's financial crisis (i.e. enhancement of the domestic financial system, emerging market and innovative products, better control of the financing system) ignore the deeper moral and educational crisis of modernity that places the responsibility for the financial crisis on citizens and their lack of savings. Meta-modernity opposes viewing citizens as consumers, as depersonalised, technically controlled objects of the financial and political system. It seeks more ethical standards in business, education, and politics and it encourages developing new perspectives for evaluating the financial practices. Meta-modern discourse supports the view that the financial crisis is a direct result of prioritising the interests of the power holders – banks and financial enterprises – at the expense of citizens' well-being and value-based questions.

### Introduction

Although the financial meltdown of the 21<sup>st</sup> century is an economic phenomenon, one cannot ignore that the fundamental epistemological principles underlying the phenomenon also underlie the modern philosophical and social discourse: the pragmatic instrumental good that leads to marketable products vs. the liberation and empowerment of persons that lead to self-orientation.

A holistic interpretation of the recent crisis would argue for broad theoretical insights that take into account how and to what degree the human sciences are responsible for the financial situation. Apart from the monolithic interpretations provided by systemic narratives that seek to justify themselves, analysis of a financial crisis cannot be reduced solely to economic terms: Marxist, capitalist, neo-liberalist, and socialist economic interpretations all tend to blame one another and seem to recycle their own principles, which present life as obeying systemic linear truths and beliefs.

This paper seeks to go beyond an economic explanation of the financial crisis and aims to shift the focus of the debate from the external characteristics to the deeper causes of the crisis, which are mainly philosophical, ethical, educational and social. In looking at the moral aspect of the financial crisis, we aim to answer fundamental questions concerning the responsibility of each citizen and that of society in relation to this situation. We want to reconsider the ideal of globalisation that promised to raise the living standards of poor countries; it seems to have instead created consumer complicity in a system that promoted consumption. We would also like to reconsider the educational system, which seems to have been reduced to the training of workers unable to participate in the decision making process.

What is wrong and what is right? What behaviour is moral and what is immoral? What is the meaning of solidarity and how is it that individuals become

alienated from their own actions and transactions? Who defines what a person should become and know? What is the meaning of liberation in the postcolonial world and what is the relationship between liberation and emancipation? It is obvious that different epistemological paradigms respond differently to these questions (Koutselini, 2009).

To answer these questions we must revisit the debate between modernity and post-modernity and the consequences of the prevailing principles of late modernity in all aspects of life. Here, we argue that the process of naturalisation and its negative side effects – a process in which education as the caretaker of economy is a natural function – prepared and contributed to the current financial crisis.

### The side effects of modernity

In the years of late modernity, the economic motif of selection and training for occupation was gradually enhanced. As a consequence, today's educational policies are characterised by a surfeit of managerial input, universal standards and a deficit of personal introspection, reflection and ethical-moral development of all persons involved in the educational endeavour. Policymakers, stakeholders and teachers focus on what students should know in order to work and contribute to economic development, independently of their ability to think and decide.

From this point of view, the universe – and within this universe, the human and social sciences, education, schooling and communication – appeared as a deterministic system where the law of cause and effect dominated the uniqueness of social and personal life (Koutselini, 1997). Under the bureaucratic control of rationality, the system alienated individuals from themselves (Giddens, 1991) and treated them as objects with routine obligations in a mechanistic system. Within this mechanistic system the banker is always there to suggest and promote ways of mortgaging the self through a loan, a house, a car, vacations, and con-





suming expenses. The marketised person has lost the internal locus of control, and verifies Erich Fromm's assertion that modern persons' dreams are "to have" and not "to be".

Postmodernism recognises – and I believe that herein lies its strength – that representation is not a neutral process, that there is a politics of representation where all forms of cultural representation are complicit in the struggle for power and domination. The postmodern viewpoint increasingly recognises that all knowledge claims are partial, local, historical and specific rather than universal and ahistorical. Thus, postmodernity comprises an awareness of the significance of language, discourse and socio-cultural foundation in the making of any knowledge claim (Koutselini, 1997, 2006). The American/Western style conceptualisation of happiness internalised the dream of having and consuming. Within that rationalistic, i.e. algorithmic, technocratic and instrumentally economic system, people are regarded as instruments of production and students are seen as marketable products. There are striking similarities between the educational and the financial systems. For example, equality seems to have been reduced to free access to schools for all students and free access to banks for all citizens. The routine procedures and the external control and measurement of progress have widened the gap between citizens from low and high socioeconomic backgrounds. Both, the market-driven society with its focus on consumption and market-driven education with its focus on employability have lost sight of ethical and moral principles, which is reflected in a human communication that has been reduced to financial transactions and exchange of interests. Increased marketisation and imposed needs alienate people from their inner life and any concerns other than spending and earning.

It is also argued in this article that there is a marked difference in the way that politicians and social scientists envision a solution to the global financial and economic crisis. Seyad (2009, 1) argues that the G-20 meeting in April 2009 in London indicates that "the global financial crisis cannot be overcome by the isolated efforts of any one nation but requires comprehensive and coordinated action by all major economic powers", suggesting that the problem will be solved by the same powers that created it. The rationale for this view is the fact that politicians and economic analysts attribute the crisis exclusively to the "shadow banking system" with its lack of transparency and to the "credit rating agencies" on which the market and the banking system over-relied (Seyad, 2009). This kind of debate purposefully ignores the interplay among factors such as knowledge claims, economic development and political control (Apple, 1979, 1993, 1995), all of which contribute to the maintenance of a society's status quo.

The previous financial crises in the 1930s, 1970s and 1980s proved that, during the crisis, banks and market became more aggressive in seeking to keep their share and interests. They also proved that there is no pre-determined way to stop the crisis or to guarantee that such financial crises will not occur again. Thus, one can propose a number of answers as antidotes to today's crisis, but no one can guarantee that crises will not be always with us and that they can be totally eliminated.

Some of the already proposed antidotes for today's financial crisis are: to enhance the domestic financial system, to set up better standards for loans, to produce innovative products, to enhance the employability and the value of retirement savings, to provide financial education. A lot of pages have been written about all these ideas-antidotes making obvious that authors try to take a fresh look at their domain of expertise, usually concluding that all measures must be combined with employees' increasing knowledge and confidence for making financial decisions (i.e. Tullock, 2010).

### **Towards a meta-modern paradigm for curriculum and thinking**

Postmodernists have been strongly criticised for their anti-realism and their sometimes nihilistic deconstruction of foundational knowledge. There are two major shortcomings/flaws in this viewpoint: there is the fact that postmodernism does not recognise in the learner any kind of *resistance to objectivity*, nor is the knower/producer of knowledge given any kind of authority to produce knowledge; second, postmodernism oversimplifies the relations of power in society (Koutselini, 2006). While no one can deny that experience is socially constructed by rules that individuals learn to internalise, the crucial questions remain: is internalisation always in the interest of those "in control"? Is the correlation of internalisation, knowledge and control predictable and linear according to the "cause – effect" model? (Koutselini, 2006). If that is what postmodernists propose, then they question their own discourse, which is based on the denial of cause-effect results in social studies, and especially in education.

Based on the above discussion as well as on Derida's theory that in order to deconstruct it is necessary to circumscribe, we have proposed (Koutselini, 1997, 2006) the term *meta-modernity* as the basis of a new paradigm of communication, schooling and coexistence in a society. Further, it is a paradigm that aims to empower individuals to understand how power and interests function for the enslavement of persons.

It is crucial that human relations and personal conduct, success and failure, crises and alternatives are neither de-ethicised nor depoliticised. Today, the educational, social and financial systems appear to be



regarded as processes to be learned and implemented with the aim of achieving predefined and specific results. They have become, in fact, a means of achieving status, the conditions and terms of ontological reaffirmation of each person in society as well as every specific society in the community and throughout the world.

Understanding the above truth must make one skeptical about societies' development according to world leaders and their products, material and discourse, as these can control both the status of being in the society and also a country's "allowed" level of development.

In this context, meta-modernity means the modernisation of modernity, the transcendence of its weaknesses, the personalisation of its technocratic function (Smith, Wexler, 1995). Thus, meta-modernity includes ideas, values and attitudes supporting not a critique but new ways of understanding a meaningful (as opposed to chaotic) world (Koutselini, 1997).

The dialectic between person and world defines the meta-modern educational, ethical, and societal frame wherein each child acquires his/her personhood, creates knowledge, and realises his/her existence as a being-in-the-world. Meta-modernity implies a shift in how we think about our relationship to the world, a shift that leads us beyond the sequential, quantifiable understanding of the universe and promotes *the experience of a network of relationships*, with the individual having the central voice. Consequently, experience and reflections on the experience emphasise qualitative processes and communication instead of quantitative results and market-oriented consciences (Koutselini, 1997, 2006).

Grumet (1992, 31) argues that "we cannot talk about social sciences without talking about the dialectic between person and world, a dialectic that holds all the mysteries and ironics of paradox". Meta-modern approaches are not new; rather the terminology is new. Meta-modern approaches are based on phenomenology and hermeneutics, and they advocate a network of communication that promotes a dialectic synthesis of different theses but also a dialectic understanding between persons and social phenomena (Koutselini, 2008).

### **The emancipation of citizens**

Examining the financial crisis through a non-modernist lens, one could place the interest of the power holders in opposition to *the interest of the individuals*. Moreover, Giroux's (1983) emancipatory pedagogy works *with* as opposed to *upon* the oppressed. Giroux argues that domination *and* resistance are mediated through the complex interface of race, gender, class – and other roles – with asymmetrical relations of power. From this point of view, the poorest people, the uneducated, and those at risk appear to own things

they could not afford due to a financial and banking system that served the interests of producers, power holders and governments (Freire, 1972). The emancipation of citizens – and especially of the at-risk citizens – facilitates the understanding of their vulnerability to exploitation and makes them aware of the non-financial causes of the crisis.

Schools in the USA (ASCD SmartBrief, 2010) promote the idea that the financial recession can be overcome through a combination of financial literacy and financial responsibility. These financial education programmes aim to teach the importance of savings, an aim that once again places the responsibility for the financial crisis on citizens and their lack of savings. It is not difficult to understand why bankers do not offer consumer education programmes that can limit their budget, and why they do not accept any responsibility for the high rate and speed of debts in the economy.

Meta-modernity places people at the centre of the decision making process and advocates an ethical and moral assessment of all actions. It opposes viewing citizens as consumers, as depersonalised, technically controlled objectives of the financial and political system. It seeks more ethical standards in business, education and politics, and it encourages developing new perspectives for evaluating the financial practices.

Citizens must become aware of contemporary discourse and practices and realise that, with different discourse and practices, things could appear otherwise. The modern, financial-oriented discourse assumes that human communication is value-neutral, while the concepts of "efficiency", "effectiveness", "statistics", "finance and financier", "assessment standards" and "reliability" are to be valued. But, in fact, these are the result of a self-serving system which gives the control to banks and business.

An empowering discourse offers different practices and an alternative representation of reality, where "frameworks of development", "construction of human networks", "development of personhood", "reflective practices", "beliefs and values", "social and institutional context", "embedded cultural values", "societal ethos", "moral language", "rewarding experience" provide differentiated opportunities to people with "biography" – not only those with money.

In this context, most valued becomes what Foucault calls ethic, a system of moral principles and rules of conduct which exists in all communities. Our world needs to focus on the holistic development of people rather than considering them as marketable products, or worse, as loan seekers. The world needs individuals who will not only consume products and discourse, but who will also produce it; people who will be able to participate in collaborative decision making procedures and who will be critical of the new forms of surveillance, i.e. technical control in schools



and society, the exaggerated power of political parties and professional unions, marginalisation by the power holders, and bureaucratic depersonalisation of a globalised world, where peace is imposed by war!

Aristotle (XXX, 1338b) taught that always searching for the useful does not suit free persons. Practical, goal-oriented knowledge and pursuits enslave individuals to superficial goals aimed at the short-term. Moreover, Aristotle (see also Edgar, Sedgwick, 2002) suggests that people must aim for a balanced combination of “the Necessary, the Useful, and the Good”. Good is synonymous with morality, the virtue of honesty and justice, which shapes wisdom in actions, fairness in communication, and balance in pursuits and goals.

One needs to understand that the market-driven consumer society creates individual desires that promote imbalance among the three Aristotelian categories, such that the Necessary and the Useful dominate the Good. In this context, individuality is promoted at the expense of social collaboration. Moreover, society’s ties and networks have been sacrificed to the hierarchy of wealth and power that creates artificial situations of danger and terror in order to protect its interests, power and control.

In the final analysis, the imbalanced economy is the result of the imbalance among the three Aristotelian categories in relation to the goals of the soul, education, society, and human activities. This is supposed to be the starting point of all educational programmes, and especially of the financial programmes sponsored by banks and their stakeholders who do not serve the interests of the public, but rather themselves. Financial programmes should focus on citizenship and contain a strong philosophical orientation that will offer a deeper understanding of the structure of domination and subordination in society. Moreover, citizenship education should replace those citizenship programmes that limit their spectrum and aims. Citizenship education ideally will promote an integrated understanding of the educational aims in a democratic society. Why do we educate students? To become democratic, self-actualised *citizens* able to have a high quality of life in a changing world and willing to promote cultural and societal aims of the community. This is an ultimate aim and it should guide the entire curriculum and educational system.

Late modernity prioritised the economic life at the expense of the social, the educational and the interpersonal. In this way, education became the caretaker of Usefulness and easy Employment. Therefore, the problems of society can be seen to originate in the educational deficit, i.e. the education of the active citizen has been neglected. Consider the 2010 aim of the European Committee (1997): to become an antagonistic economy, based on knowledge. This aim paved the way for a focus on economics and supported edu-

cational reforms (e.g. the Cyprus curricula reform) that removed or side-lined the humanities: philosophy, sociology, ancient Greek literature, and civics. These subjects were considered to be less important, non-viable (in the economic sense) and they were largely replaced by information technology, economics, foreign languages (for facilitating transactions), maths and physics (for promoting innovation and product design).

It is obvious that value-based issues and questions cannot be promoted by positivistic approaches where a linear understanding of reality dominates. Real life and social phenomena maintain the mystery of both the dynamic interactions and lack of conformity- a mystery which holds citizens aware of unexpected crises. Thus, reform of the banking system – as the G-20 decided in London – cannot protect citizens from consumption that leads to increasing debts. On the contrary, it leads to stronger regulation by the bankers and to greater control and supervision by the power holders who gradually will increase their Foucaultian panoptical eye (Foucault, 1979). Thus, a solution to the financial crisis must not be centred on how the system is to be saved; it must rather focus on how we can develop and nurture the moral conscience of rulers and citizens.

The investment in an “emerging market” with innovative products as a policy to reduce the recession is a continuum of the economic policy of late modernity. The paradox in this is that societies propose as a solution to today’s crisis its own cause! As Banks (2004, xiv) recognises “This economic disadvantage is often the result of historic state practices of discrimination, exclusion, and segregation”. From our point of view, without commitment to reducing the social and economic disadvantages of women, minorities, small business, retired people, unemployed youth and illiterate persons, the emerging market and the easy financing will always be the messenger of the financial crisis in a society without cohesion, common democratic values, and active citizens.

## Conclusion

This discussion does not necessarily lead to the usual Marxist conclusion that the financial crisis proves the collapse of the modern capitalist economic system. It is our argument that the problematic situation cannot be explained in economic terms alone, nor it can be solved by bankers and economists. Improved bank governance is not the antidote to bank fragility and recession. We believe that the financial crisis is a citizenship crisis, a collapse of the moral and ethical ties of the society.

The institutional frameworks of today – the European Union and globalisation – radically changed the ontological and deontological status of societies and people. They prioritised economic restructuring, on both a global and a European level, through a techni-



cal and instrumental/practical/goal-oriented way of thinking. Herein lie the roots of the financial crisis: devaluing human actions results in depersonalisation of communication and loss of fairness and accountability.

All in all, a shift in focus from financial interests and consumer habits to concerns over business and political ethics should involve a continuous process of self-questioning and self-awareness in relation to the specific cultural context which is international today. Worldwide concern to overcome the financial crisis is missing a key factor, the moral/ethical discussion of what is right and wrong in social communication and what are the side-effects of the modern economy and the subsequent politics.

The financial crisis is a direct result of prioritising the interests of the power holders – banks and financial enterprises – at the expense of citizens' well-being and value-based questions. Thus, it is urgent to shift our focus to ethics in business and politics. Past financial practices, like emerging markets and creation of new needs that can easily be satisfied by easy loans led to the mortgage and market meltdown. Therefore, they cannot be proposed as solutions to the financial crisis.

Nor can the financial education alone provide a way out of the crisis, since financing leads to the vicious cycle of needs' fulfilment and new needs' creation that enhance the citizens' dependence on market and banks. The antagonism of interests and profits is the instrument of the power holders for preserving their power. Citizenship education includes in its aims the economic awareness and the moral development of persons in a way which ensures that the recognition of a sound financing system and emerging market does not undermine efforts to construct mutual trust, democratic values, and a coherent society, with less groups being marginalised because of economic disadvantages and mortgages. The existing bank system has lost the trust of its clients because of both financial practices without any moral background and citizens-clients without the competence to understand the interplay of financing and subordination.

In summary, it is obvious that the Aristotelian combination of "the Necessary, the Useful, and the Good" in modern societies remains unbalanced; The Useful dominates both the Necessary and the Good, exhibiting democratic deficit and economic segregation.

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Udo Reifner and Anne Schelhowe

## Financial Education

New, more or better financial education and financial literacy programmes should lead to improved financial capability, knowledge and outcomes. Yet we do not even know which terminology is most suitable for those projects who all intend to give an answer to a question which is less than clear.

What is meant by the term “financial education”? Why did the “demand” for financial education suddenly increase? Have the numerous tasks which consumers in a modern society have to fulfill created this new field for financial education? Are their specific needs of financial markets which need adapted consumers as competent players? Or has the general level of education fallen? Would more ignorance on financial products perhaps increase the likelihood of these markets to care more about consumers? Do we truly need financial education at all and if so, as this article argues, what kind of financial education would respond to it? Based on five years of empirical research, on existing papers and curriculars for financial education and another five years of our own experiences with practical financial education in schools and with clients of debt advice agencies we would like to promote financial education as a form of consumer protection where consumers are seen collectively as the true masters of the economy.

### Key Words

General financial education, financial literacy, financial education, financial capability, participatory education, school education, economics

### Introduction

Financial services are both necessary to consumers and dangerous for them. Financial education can be seen as part of consumer protection, mitigating the risks created by financial services and promoting their productive use. But financial education is also seen as a solution to other problems, including poorly functioning markets and the requirement that financial service suppliers provide product information. This article will illustrate an approach to financial education, currently underway in many German schools, that situates it as part of the quest for improved consumer protection. Instead of adapting consumer knowledge and behaviour to the needs of financial markets, our approach strives to build up the participatory competence of consumers.

Section I motivates the increased need for financial education in contemporary societies and distinguishes between economic and financial education. Section

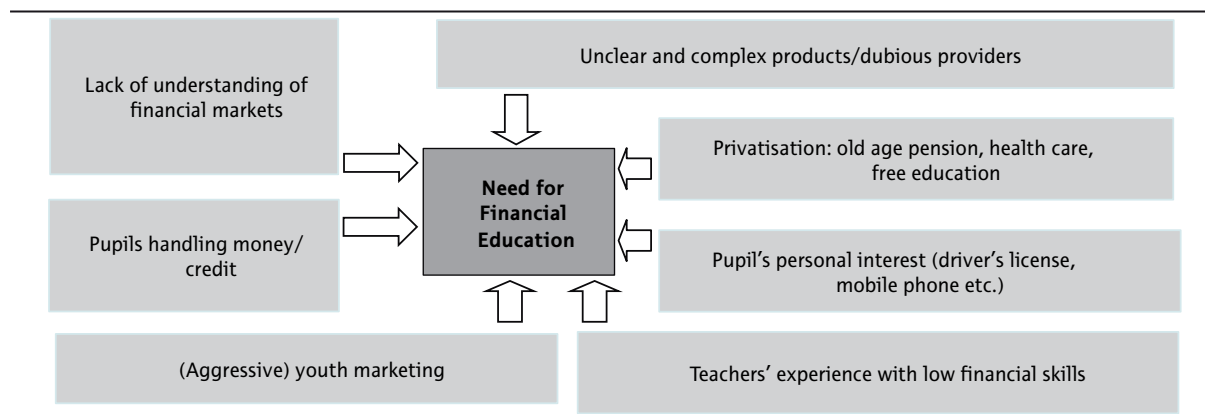
II describes the multiplicity of practical approaches to financial education while Section III describes the consumer-centred approach underlying the iff school projects.

### 1. Financial Needs of Consumers

For a long time now, consumers have needed credit to finance major investments in mobility (cars), household formation (furniture and electric appliances) and education (student fees). More recently, the privatization of social programs (e.g., retirement pensions) and the stretching of family bonds (e.g., divorce rates) have forced individual consumers to bear greater responsibility for financing of their own futures. Even poverty in a credit-oriented society is related to access to financial services because credit gives the poor access to funds that can help them escape their present condition. The use of financial services by private households has therefore become one of the conditions for taking part in social life.

It is essential that education measure up to this state of affairs, providing skills that support the economic life of the household and enabling people to take advantage of the opportunities that present themselves.

Fig. 1





### 1.1 Financial behaviour of consumers

With this in mind, we can distinguish between financial education and traditional economic education. Economic education promotes the general understanding of macroeconomic and microeconomic principles, many of which lie far beyond the requisites of daily life. Financial education, on the other hand, has a strong instrumental attitude, seeking to address the practical needs of individual citizens. Starting from the needs of individual citizens, it tries to enable them to use financial services in a way which suits their needs. Personal needs are thus related to the opportunities that the market economy provides to each individual. Financial education is focused on the instruments that enable private households to use their income more productively in time and space. While economic education usually starts with the abstractions of labour, property, industry and capital, financial education has to start with money. More and more, money gives access to what is needed – education, mobility, retirement income – in individual economic lives. Access to money and its productive use is therefore the key question in financial education (Reifner 2010, 77 ff.).

Financial education is a complement to traditional economic education, not a substitute, just as learning to drive is a complement but not a substitute for understanding of how cars work and what they do to our environment and mobility.

Financial education is therefore the addition of financial competence to the goals of economic education. Much of the current discussions around economic education in Germany and North-America<sup>1</sup> revolve around exactly this issue: including financial knowledge, financial literacy and financial capability as goals for economic education. (Piorkowsky 2008, 29-31; Reifner 2003a; Reifner 2003b; Eggert et al. 2005; Kaiser, Kaminski 1999; Kaminski et al. 2008; Schlegel-Matthies 2006).

What are the goals of financial education? We can distinguish between financial knowledge, financial literacy and financial capability. Financial knowledge is "... what people must know in order to make important

financial decisions in their own best interest".<sup>2</sup> In a report to the Canadian federal government's Policy Research Institute, Social and Enterprise Development Initiatives (SEDI) defines financial literacy involving: (1) objective knowledge of financial concepts that affect personal well-being; and (2) subjective confidence in the ability to make financial decisions (SEDI 2004, 6). SEDI then goes on to define financial capability as "financial literacy plus responsible and informed behaviour." (Cited in Schwartz 2010, 5f.)

The OECD definition of financial education (OECD 2005, 21) also understands its goal as financial capability, defining financial education as "the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."

### 1.2 Financial behaviour of suppliers

The above definitions, however, fail to incorporate the critical attitude towards the financial system which economic education would require. That is, they simply teach "the rules of the road", assuming that there is a fixed and unalienable set of rules, facts and procedures which can be learned in order to achieve the goal. However, in the same way that a critical understanding of the role of the automobile in contemporary society differs from knowing how to drive, we believe that financial education is far broader than the "rules of the road" and should include a critical perspective on the role of financial services in contemporary society. For example, we believe that it is not the consumer who should adapt to the financial system but the financial system that should adapt to consumer needs. Students should not be educated only to adapt to existing circumstances but also to critically reflect, co-create and change them. In order to do so they need to have some financial knowledge – the "rules of the road" – but the key objective should be the development of the competence to analyze one's own situation and to develop an ability to use that analysis to assess and promote existing alternatives.

For that reason, our definition of financial education (Reifner 2003b, 12) contains some critical elements: "Financial education provides such knowledge, understanding and social competence for a critical evaluation of financial services ... based on credit opportunities and respond adequately to human needs to allocate own income during lifetime there and then

1 The annual conference of the German Society for economic education (DGÖB) on March, 2, 2010 in Weingarten was dedicated to the issue of "Financial Competence and economic consumer education". The lecture covered "Financial education" (by the author) "Financial Literacy and Diagnostics" (Engartner, T./Loerwald, D./Retzmann, T.); "Financial Education of Teachers" (Becker, M./Macha, K./Schuhen, M.); "From budgeting to entrepreneurship in one's own affairs" (Heine, G.); "Competence requirements for consumers in the market economy" (Seeber, G./Birke, F.); "Financial Competence of young people" (Lackmann, J.); "The financial crisis as a challenge to financial education" (Remmele, B.); "Good Practice – bad practice in financial education" (Piorkowsky, M. B.); Financial Education (Wiepcke, C.). (The proceedings of the conference will be published by DGOEB in 2010).

2 The quotation is from Mandell (2006) p. 2). Mandell, however, calls this financial literacy rather than financial knowledge. See also Cole, Shastry 2009.



where outside their labour relations sustainable consumption is required."

Words like "social competence", "human needs" and "sustainability" imply that financial education cannot limit itself to informing students about products that do not even pretend to meet these requirements. Those learning about the system should realize that they are its masters and teachers.

The present financial crisis has made it clear that the weak can be harmed by some financial products. Financial service providers deliberately seem to provide inadequate, indeed increasingly opaque, products. To adapt a phrase of Adam Smith, we can say that "it is not from the benevolence of the banker, the insurer or other financial suppliers that we can expect responsible credit and sustainable investments of our money but from their regard to their own interest." What consumers need is not merely to understand the financial services available to them but how to develop or change them. Through the process of selection from the available products and through the process of making complaints, consumers can exercise pressure on providers and show them how their needs should be met.

Unlike Adam Smith's "baker, brewer and butcher" it is clear that the market in financial services is particularly inclined to generating deceptive and unusable products. Financial services are quite abstract and their lack of concreteness makes it possible for suppliers to mix up goods and payment, and capital and interest, to the point that customers are barely able to tell whether they have received less or paid more. This is why the legal system has been especially active in regulating the money system.

Legislation and extensive judicial precedent in the area of consumer law have recognized that market forces cannot fully safeguard the interests of consumers of financial services. The market is therefore supplemented by legal restrictions and structures which people must activate competently and confidently through complaints and legal proceedings. Financial education has therefore an important dimension beyond that of financial capability as it was defined in the last section.

One could even argue that it is the providers of financial services who are most in need of financial education as we define it. They should learn about the needs of human beings and about social situations that can make seemingly reasonable products destructive for individuals. The devastation wrought by the subprime mortgage crisis was destructive for the whole of society.

This need for mutual learning in financial education is especially visible in matters of credit and debt. Simple consumer credit relations show how irresponsible or inadequate credit provision can lead to the destruction of productive individual household economies. Here, law and justice are part of the message that con-

sumers can convey to the supply side of the financial services market.

### **1.3 Further differences between financial and economic education**

Economic education can be given two quite different meanings. First, economic education is about a sector which is called "the economy", comprising finance, trade and production units. This definition does not introduce a special purpose or require normative assumptions. Any collective system of production, distribution and consumption can be incorporated under this heading.

But the word "economic" has also a normative meaning in the form of "economic behaviour". This goes back to the roots of the word where *oikos* refers to a "home" and *νόμος* *nomos* to "rule". This meaning is still visible in German language where a pub is called a "Wirtschaft" (economy). Thus, economic education can also refer to the tradition of good housekeeping which requires cost-efficient production. The French word "économiser" means "to save" and in English we often identify economic behaviour with a behaviour where a maximum of resources can be saved. This coincides with those forms of financial education which we consider to be budget education. Learning how to save is a core element of this form of economic education and dominates, for example, the Japanese idea of financial education as well as the vast programs of the German savings banks association. Cost effectiveness and savings are also valid goals for professional education since the professional use of the economy under market conditions requires production and services at minimal cost.

Financial education for consumers is different in three aspects. First, it is focused only on one sector of the economy: financial services. Second, it does not promote the understanding of all facets of the financial sector but only those that facilitate its use for consumer needs. Third, the role of savings at the individual level is different to the role of savings in macroeconomic models; financial education deals with the former far more than the latter.

First, it may of course be helpful to know everything about banking and finance and their links to other sectors of the economy. But in financial education, this is not the aim necessarily.

Second, knowledge has to be justified with regard to consumers' interest in using financial services for personal consumption goals. People do not want to listen to lengthy explanations of how airplanes fly if such knowledge is not necessary to get where they want to go. But they may be concerned with its risks which leads them to questions which go far beyond a narrow instrumental view. One can even argue that in the last resort an instrumental view onto the economy is the only correct way of its understanding since



it leads to needs orientation in the sense of Armatya Sen and others. Some of our projects on financial education with pupils in secondary schools therefore discuss “banks” but do not use terms like “credit” or “bank account”. Using examples from their daily life with school-mates or parents, pupil learn how to cope with time problems (borrowing, renting), risks (risk sharing) and cooperation (exchange, money). In this context knowledge about “the economy” is therefore less important than the ability to manage time, risk and cooperation. We relate these matters to existing financial products at a later stage of the project. As part of the project, students have to go to the bank to ask the banker what kind of solutions he or she are able to offer for what they think is needed to solve the problems the students have been set.

Third, whether saving is good or bad for an individual is different than whether savings is good or bad for the economy as a whole. The value of individual savings depends on the person’s actual situation, interests and needs, which are related to their societal and familial context. Consumers learn from their politicians, however, that spending is good for the economy. Even borrowing for the purpose of consumption is sometimes promoted as a support for the general good of the national economy. To be generous or even extravagant when, for example, hosting guests or caring for one’s own children or partner is part of ancient cultural values. Acting at minimal cost is therefore not necessarily a good thing. Modern home economics who reduce their economic insights to market and money economy may in this respect have a perspective which sociologists and historians may see as far too narrow. From a cultural and democratic standpoint students should not be forced to adopt such an attitude but be able to decide on their own whether under their special conditions and with regard to their special needs saving is good.

Financial education is therefore either different from traditional economic education or part of a much broader understanding of it where needs orientation including different preferences than maximising economic wealth have their place.

## 2. Needs for Consumer Education

Educational programs typically have multiple objectives. In primary school, children learn reading, writing and arithmetic but also are expected to be taught the values of the society in which they live. Similarly, the many projects and declarations promoting financial education – e.g. from the Worldbank (Jones 1997; Holzmann 2007)<sup>3</sup>, the OECD (OECD 2003/2004; OECD 2005), the EU-Commission (Kosicki 2008), German

Netzwerk Finanzkompetenz (2010) or by the General Directorate Social Policy at the European Commission<sup>4</sup> – have multiple objectives. Indeed, they often only share certain words in their titles and differ fundamentally in most other ways.

Some see financial education as a way to make the market mechanism more effective. For them, financial education is a way to strengthen consumers’ confidence into the market, to enhance their ability to make competent choices and to promote self-confident behaviour. The present financial crisis with its erosion of confidence, especially in the banking system, has created hopes that profounder “understanding” of banking mechanisms through financial education could render bankers’ behaviour also more “understandable” and thus more “acceptable”.

Producers of financial goods and services wish for sophisticated consumers who are able to understand the products on offer. Such financial knowledge would facilitate the marketing of financial products and ease the burden of explaining these increasingly complex products.

Rising loan default rates and the increasing number of consumer insolvencies burden financial markets and undermine the market for securities. Better financial education could help consumers to maintain payments and avoid overindebtedness. Emphasizing the need for more saving, stronger financial discipline and improved record-keeping skills is seen as necessary.

Consumer organisations see the hand of financial markets in the limited effectiveness of consumer law and are funded by their efforts to enforce consumer law through legal action and complaints by consumers. Knowledge about such legal rights and about how to defend them, together with negotiating skills, prudent behaviour and self-confidence could improve the level of general consumer protection and promote minimum quality standards for financial products.

Because of the multiplicity of objectives that sponsors believe financial education can achieve, it is advisable to forego any concept of financial education that suggests a single unified format. It would be better to differentiate between: (a) the provision of information about financial products and services (financial literacy); (b) household budgeting; (c) the encouragement of saving; and (d) consumer-oriented financial education.

The following sections give some examples on existing projects which regard themselves as financial education programs but which serve additional goals that can not primarily be attributed to financial education as described above.

3 See the 15 Mio. \$ “The Russia Financial Literacy Trust Fund”. a co-operative project between Worldbank, OECD and the Russian Federation: (<http://www.worldbank.org>).

4 See European Database for Financial Education: [http://ec.europa.eu/internal\\_market/finservices-retail/capability/index\\_en.htm](http://ec.europa.eu/internal_market/finservices-retail/capability/index_en.htm).



## 2.1 Social Security Administration and Education for Pensions

The worldwide trend towards the introduction of private pension schemes (Holzmann, Stiglitz 2001; OECD 2008) has demonstrated that simply cutting back state pensions fails to generate the incentives required to induce greater savings by people who are particularly at risk of poverty in their old age. In Germany, a broad coalition of German education, government, and labour market institutions therefore intends to roll out financial education, delivering courses at more than 500 institutions of adult education across Germany (2010).<sup>5</sup> However, the dominant role played by German public security in this project, providing money and teachers, results in a bias towards state pensions and their justification. With a focus on questions like “how much state pension can you expect?”, “how does the state support additional private and employers’ contributions?”, the project seeks to rationalize a compulsory system that functions quite independently of consumer’s decisions. It provides political legitimacy and understanding but does not belong to a needs-based consumer education. While these projects promote public pension systems more than private ones, the Bundesverband der Investmentbranche (German federal association for investment companies) has offered educational programs to promote private retirement pension schemes, especially those products it supports itself (2010).<sup>6</sup>

## 2.2 Welfare Organisations to prevent over-indebtedness

The motivation for many financial education programs arises from the growing concern about the over-indebtedness of private households. Survey evidence – iff-Überschuldungsreport 2009; SCHUFA-Schuldenkompass 2009 – reveals, however, that over-indebtedness is less of an educational problem than a consequence of the increasing instability of income and increased expenditures for formerly free public services, both of which increase the need for credit among cash-poor households. A relatively rigid and cost-intensive credit system (especially for high-risk consumers, who dispro-

portionately rely on payday loans, credit card credit and overdraft protection) makes it more difficult to cope with the increased burden of debt. Data from debt advice organisations suggest that consumer behaviour that might be modified by financial education (such as overspending or irresponsible borrowing) accounts for only about 15% of the cases of over-indebtedness (Knobloch, Reifner 2009). Even within that 15%, it is mostly not the credit as such but a certain additional amount which should have been avoided. Yet the political debate focuses primarily on educational schemes that emphasize the deficiencies of borrowers (and especially young borrowers) (Reifner 2006) while the irresponsible behaviour of credit providers with regard to price, design, servicing and debt collection is downplayed. For example, little effort is made to identify what proportion of consumer debt arose from fees, premiums, interest and refinancing charges.

On the other hand, research studies have shown that the behaviour of consumers in times of financial difficulty, when combined with legally and morally dubious offers of “help” by financial service providers or debt consolidation providers, contribute to making the crisis more acute and harder to resolve. Debtors with more ability to communicate with the supplier side in a self-confident manner would certainly be able to ameliorate their situation.

But here we face the problem of distinguishing between economic and financial education. Most of financial education projects promote saving as the best way to escape over-indebtedness. But this way is neither theoretically nor empirically viable for low-income households who, because they cannot save, can help themselves only by using credit. Economic education would promote some forms of borrowing (e.g., student loans) as the way to escape poverty. The financial education programs may confuse being in debt with over-indebtedness. Because loans lead to debts, it is easy to reach the erroneous conclusion that over-indebtedness is a direct consequence of indebtedness. Thus credit becomes the reason for over-indebtedness which can be “cured” by its seeming counterpart: savings.

Instead, access to (affordable) credit, or “financial inclusion” (Basingstoke, Kempson 2006; Byrne, McCarthy, Ward 2005; Carbo, Gardener, Molyneux 2005), can be seen as the true cornerstone of the prevention of over-indebtedness and poverty. The problem, according to these writers, is not one of indebtedness but of liquidity. But those who propagate a return to savings see the unease with progress to a money society, comparable with the conservative movements against the advent of industrial production (the Luddites), of computers as job-killers, as related to an inappropriate concern about the new phenomenon of financial poverty: “If this person had not taken out the (bank) loan, they would have avoided over-indebtedness.”

5 Altersvorsorge macht Schule! (Pensions go to school): <http://www.altersvorsorge-macht-schule.de>. The coalition consists of Deutsche Rentenversicherung (German Social Security), the Deutschen Volkshochschul-Verband (German association of secondary schools), the Verbraucherzentrale Bundesverband (association of consumer associations), the Deutscher Gewerkschaftsbund (German trade union congress), the Bundesvereinigung der Deutschen Arbeitgeberverbände (German employers’ association), the Bundesministerien für Arbeit und Soziales, für Finanzen, für Ernährung, Landwirtschaft and Verbraucherschutz (German federal ministries for employment, communities, finance, food, agriculture and consumer protection) and the Bundespresseamt (German federal press office).

6 Hoch im Kurs. (High Yield): <http://www.bvi.de/de/ausbildung/schule/index.html>.





Examples are projects like “Bank und Jugend im Dialog”<sup>7</sup> (“Banks and young people in dialogue”) in Krefeld, or “Cash for Kids” led by Munich based Debt-Preventgroup “Cashless”<sup>8</sup> (2010), or the „Financial driver’s licence”<sup>9</sup> run by the Association for Debt Relief Essen (2010), “Kids und Knete”<sup>10</sup> (“Kids and dough”) in Aachen. They focus on subjective conditions for the use of money and their contents are critical of credit take-up.

Also some consumer advice organisations engage in a savings philosophy in both schools and adult education. (Consumer Central North Rhine Westphalia (2010): “Das Schuldenkarussell” (“The debt merry-go-round”)); Hesse (2010): “Jugend und Geld”<sup>11</sup> (“Youth and money”); German Association of Consumer Centres (2010): “Zukunftswerkstatt Schuldenprävention”<sup>12</sup> (“Future workplace debt prevention”), “Umgang mit Geld” (“Using money”).

### 2.3 Banks to comply with Corporate Social Responsibility

Consumer protection and, in turn, consumer education play an important part in the CSR principles drawn up by the OECD. Those principles require banks to invest in financial education in order to further public goals in private enterprise.

Commerzbank placed investment products at the heart of its Kanon der Finanziellen Allgemeinbildung [canon of financial education] (Reifner 2007; 2003b) In its latest version, however, they focus more on payment devices and credit from a user perspective. Conversely, the Deutsche Sparkassen und Giroverband, as well as a number of savings bank foundations, feel committed to savings and highlight how saving and thrift can be reconciled with modern approaches to investment. Saving and thrift are seen in terms of sums of money influenced by the prospect of earnings in the form of interest, and by the level of risk.

The Deutsche Bank Foundation produced a brochure for schoolchildren in collaboration with the Institut für ökonomische Bildung (Institute for economic education) at the University of Oldenburg and the German newspaper Handelsblatt (Kaminski et al. 2004). The brochure was written in the general tradition of economics, but with an emphasis on finance. Now the biggest European insurer Allianz as well as the Ger-

man Investment Fund Federation have started similar initiatives where bankers go into schools to offer general information about banking and finance. In Great Britain, financial education has been allocated to the Financial Services Agency (FSA), a governmental body. In the USA, even though a financial education adviser has even been appointed to the President’s office, financial education is largely organized by private firms and organizations. In organizing the Jump\$tart Coalition, US financial service providers and other businesses have got together in adopting the more general approach of explaining the overall functions of financial service products. In France, the banks have established a Financial Education Institute.<sup>13</sup> In terms of the prevention of over-indebtedness, the emphasis of banking supervision differs from that of the banks. But in all it resembles a general economic education which understands economics as a sector of society necessary to understand for each consumer.

### 2.4 Consumer Organisations to promote consumer rights

Users of financial services have legal rights and claims to the provision of high-quality financial services adapted to their needs at appropriate prices. Some models of financial education, especially that of the German association of consumer organisations (vzbv) therefore take a legal approach, arguing that especially in the difficult area of financial services, consumers need to mobilise their rights. Economic understanding is derived from a legal understanding.

This approach takes into account that according to financial legislation as led down for example in Art. 11 (1) Directive 93/22/EEC the provider of financial services is responsible for good advice and has to “seek from its clients information regarding their financial situations, investment experience and objectives as regards the services requested, and makes adequate disclosure of relevant material information in its dealings with its clients...”. According to the German transposition of this Directive in Art. 31 Law on Investment Services (WpHG) it is their duty to “provide customers with information in a timely manner and in an understandable form, and that such information be designed to enable customers to develop an understanding based on a reasonable evaluation of the type of financial instruments offered to them or requested by them, and of the risks involved... , and thereby reach their decisions.”

Such explanations appropriate to the product and to the customers individual situation have to be demanded by the customer. Financial education by the state would instead shift the cost of necessary market information to the state or to the consumer. This could encourage suppliers to develop ever more dan-

7 Bank und Jugend im Dialog (Bank and Youth dialogue): <http://www.bankundjugendimdialog.de/>.

8 cashless <http://www.cashless-muenchen.de/>.

9 Financial driver’s licence <http://www.schuldnerhilfe.de/finanz-fuehrerschein/>.

10 Kids und Knete (kids and money) <http://www.kidsundknete.de/>.

11 Jugend und Geld (Youth and Money) [http://lernarchiv.bildung.hessen.de/sek\\_i/powi/themen/wirtschaft/geld/jugend\\_geld/index.html](http://lernarchiv.bildung.hessen.de/sek_i/powi/themen/wirtschaft/geld/jugend_geld/index.html).

12 Zukunftswerkstatt Schuldenprävention (Future Ateklrier Prevention of Debts) <http://www.verbraucherbildung.de/projekt01/media/pdf/Schuldenpraevention.pdf>.

13 <http://blog.lafinancepourtous.com>.





gerous, complex and inadequate products without regard to consumer interests. Since education is certainly less costly than individual advice the shift towards abstract information via Internet could thus be accelerated to the detriment of consumer protection.

This approach also refers to the two elements of justice which require not only equal justice (*iustitia commutativa*) but also more social distributive justice which especially overindebted people need to cope with a situation in which individual decisions on their side provide little prospects for escaping their fate. (Veith 1993) In the new 2002 reform of the German Civil Code creditors are now obliged to “have regard to the rights, legal protections and legal interests of the other party” (§241 para.2 German Civil Code).<sup>14</sup>

### 3. The *iff* school projects

For *iff*, financial education is a crucial component of consumer protection, integrating an instrumental approach to the use of financial services with an emphasis on the legal rights of consumers. Instrumentally, consumers learn to identify and meet their financial needs; for example, the need to save while working in order to live well in retirement is explained along with methods for accomplishing that task. More generally, however, consumers learn about the legal rights that compensate for the weakness of human needs in a market economy and that enforce public rules in a private economy. This more general approach is critical of the market for financial services. Consumers learn to ask questions and to demand answers; it is they who are sovereign, defining what is appropriate, adequate and useful. In societies where the roles once played by the welfare state must now come to be integrated into each economic transaction in society, the *iff* approach asks for more democratic pressure from consumers, without regard to their financial ability or economic power.

After gradually developing this notion of consumer-oriented financial education (Reifner 2003a; 2006; 2007; 2010), *iff* put it into practice with two programs “Schülerbanking” (“pupils’ banking”) and “Wissen rechnet sich” (“knowledge pays”).

All materials associated with the projects are available to the teachers, schools and banks who participate in the projects and subscribe to its pedagogical principles, as described in this paper. Banks play an active role in the projects by providing financial advice (in response to hypothetical problems presented by students) and a physical location for some of the project activities. Schools support the program with their pedagogical resources. Finally, *iff*, as an external research institute, is responsible for the consumer-oriented content and for the training of the teachers and bankers participating in the projects.

### 3.1 SchülerBanking

The SchülerBanking project has been working with Hamburg schoolchildren, aged 14 to 17, since 2005. In designing and implementing SchülerBanking, *iff* worked both with the Hamburg education authority and with the Hamburg Savings Bank (Haspa), the largest Hamburg-based bank. After its successful implementation in Hamburg, the project expanded to other regions of Germany, in association with other Sparkassen (savings banks) in the states of Baden-Württemberg, Lower Saxony and North Rhine Westphalia. In the 2009/2010 school year, about 5,700 schoolchildren participated in this project.

“Wissen rechnet sich”, the second *iff* financial education program, in cooperation with Deutsche Bank and Hertie Foundation. It targets younger schoolchildren in primary schools in the “Starke Schule” (“strong school”) network across Germany.<sup>15</sup> Whereas SchülerBanking, as described below, incorporates actual financial service products into its curriculum, “Wissen rechnet sich” attempts to identify basic functions and aspects of financial services relevant to everyday life. It started autumn 2008 and is now in its second year of use within the “Starke Schule” network.

In the remainder of this section, we focus only on SchülerBanking. Four components characterize SchülerBanking: (1) the nature of what is to be learned, using case studies on carefully chosen topics; (2) the involvement of the “Bank” as a physical location where learning takes place; (3) the goal of teaching participatory competence (as defined below) in addition to facts about financial products; and (4) the focus on mutual learning, with the “Bank” learning along with the students.

### 3.2 Case Studies on Carefully Chosen Topics

The project relies heavily on age-appropriate case studies. In order to facilitate transfer into everyday life, the cases are oriented towards everyday situations that students might soon encounter. Students can therefore identify with the problem at hand and can develop their own ideas about how to resolve the problem. Both the problem and the proposed solution are then presented to a banker during an interview on bank premises.

The children thus learn to interact with bank advisers on an equal footing, even in (simulated) situations of financial difficulty. They come to understand, for example, the potential consequences of overindebtedness and the advantages of independent advice. They learn that borrowing money has a price and that the price is related to time and risk factors. They also learn that banks can charge high fees if the terms of the credit agreement are not met.

<sup>14</sup> see German constitutional court *Neue Juristische Wochenschrift* 1994, 2749, 2750.

<sup>15</sup> The “strong school” network consists of schools that have been identified by Deutsche Banks as providers of high quality education.



Each module within SchülerBanking is centered around one basic financial product and one specific situation in which the product has to be managed intelligently by the pupil. Examples include:

- current accounts in commercial banks;
- bank loans;
- pensions; and
- programs for dealing with financial difficulties.

New modules are constantly being developed in order to give teachers and schools wider choice. For example, a unit on financing future university studies is currently under development. Pupils learn to predict their future liquidity, to explore the University as a possible place to study and to learn how credit and savings, along with public subsidies, can help them to cope with its financial challenges.

The pension module focuses on retirement pensions and is a good example of how each of the modules is designed. Because few adults think about their own retirement until after they have started a family, it seems improbable that schoolchildren will be motivated to tackle this subject. For that reason, the module begins with a related, but simpler and more relevant, idea.

To create an analogue to the retirement savings decision, the students use a spreadsheet to work out the costs associated with an extended working vacation in Australia and consider the various options available to finance their trip. Fourteen year-old students, imagining a trip to be taken at age 19, will need to look for savings programs that will best help them make their trip. They therefore must do research on medium-term forms of investment on the Internet and at various banks. They then engage in advice sessions at the savings banks. The children come to see that there are phases in life in which they will not have enough money to meet their expenditure. They learn how to evaluate the risks and opportunities involved in investment products, how to apply their understanding of time, risk and capital, and how to take into account their personal circumstances and preferences in the selection of forms of investment.

In this way, the students become acquainted with the basic idea of a pension – providing income when earnings are insufficient to cover expenses – before pensions are addressed directly in the second phase of the module. In that second phase, the students question retired people about their circumstances. Examples are used to develop an understanding of the criteria for the choice among various types of pension schemes. The students learn to take into account their personal circumstances and life plans, inflation and changes in living costs, and the risks and opportunities involved in the various pension schemes.

### 3.3 Learning at the “Bank”

A basic premise of the projects is that bankers should not enter the schools but instead that the students

should enter the banks. Their interaction with the banks allows students to rehearse the advice sessions that they might encounter later in life and to critically reflect on these sessions together in class. They learn to pose practical questions and to follow them up. They write reports that evaluate the advice they received at the Bank, thus providing feedback to the young bankers that the savings banks usually assign to the task.

In all modules the pupils compare the offers of different banks, speak about their experience and give their opinion on the adequacy of the offered solution. Teachers and iff take care that positive as well as negative critiques are voiced, always based on the presented facts. As an aside, the bank advisors learn that even critical assessments can work in their favour since parents who are Sparkasse clients showed their admiration for the openness and dedication of their bank.

All modules focus less on describing existing financial products and more on understanding the principles underlying choices among them. In that way, students come to see that financial services are not abstract products, and that they have in fact developed historically from social relations that were credit relations but not necessarily money relations. For example, a typical financial education program might discuss the terms of a mobile phone contract and perhaps the financial consequences of excessive use. Instead, iff compares mobile phone contracts to prepaid telephone cards in order to highlight the credit relationship, which involves uncertainty and cost, things which are unclear in advance. Understanding that a 1 € purchasing price for a telephone may be a false front for an expensive 24-month hire purchase agreement gives great insight into what credit is about.

The projects are evaluated constantly through surveys with all involved parties: bankers, pupils and teachers.

### 3.4 Achieving Competence

An underlying principle of iff’s vision of financial education is that pupils must learn that the people are the masters of the economy, that consumers must understand the nature of their sovereignty. Consumers have to define what they need and exercise pressure on suppliers to meet those needs and to react properly when problems arise due to of the tension between the needs of the people and needs of the banks. For this, it is necessary but not sufficient to know about these frictions; the competence to participate actively in the economy is also required.

Knowledge alone does not lead to the development of participatory competence and self-confidence (Humboldt 2002, 5 ff.). Particular value is placed on enabling consumers to engage actively, on their own initiative, in the market economy, thereby articulating and furthering their own interests. Competence is therefore a matter of “being able to use the cognitive capacity or



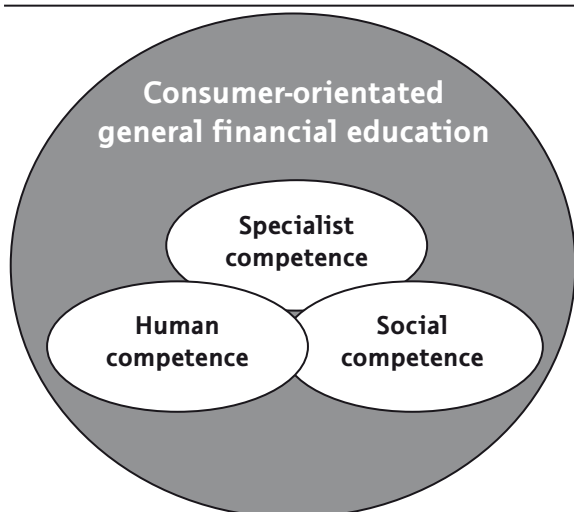
skills available to an individual, or which that individual may acquire, including the associated motivational, volitional and social capacities and skills, in order to solve specific problems, and to apply those solutions responsibly and effectively in a variety of situations" (Weinert 2001, 27 f.). Competence in terms of personality, social skills, methodical behaviour and specialist knowledge are all enhanced by this. In the context of financial education, participatory competence should increase "the individual's capacity to conduct him- or herself in professional, social and private situations in an appropriate and considered manner, and to assume both social and individual responsibility." (Kultusministerkonferenz 2007, 10) Competence in terms of specialist knowledge, human and social skills can be discussed.

At the level of specialist competence in financial services, the three central factors are money, time and risk. The basic concepts used in describing products and product features (such as the features of a current account at bank or the effective annual rate of interest) make it possible to bring about a basic understanding of core concepts at the specific product level. The approach must enable students to make basic calculations in relation to various products and to make comparisons between them.

At the level of human competence, the core aim is that students can appraise and reflect on their own circumstances, needs and interests and be capable of seeing themselves as actively engaged in defining their relationship with money and financial services. Strategic objectives therefore have to be pursued, enabling a critical evaluation of the financial services on offer against the background of the consumer needs.

At the level of social competence, the issue is the ability to ask questions, to present and represent ones own interests, to participate in the direction of advice sessions, to enter into the arguments and collectively to develop and represent group perspectives and interests.

**Fig. 2**



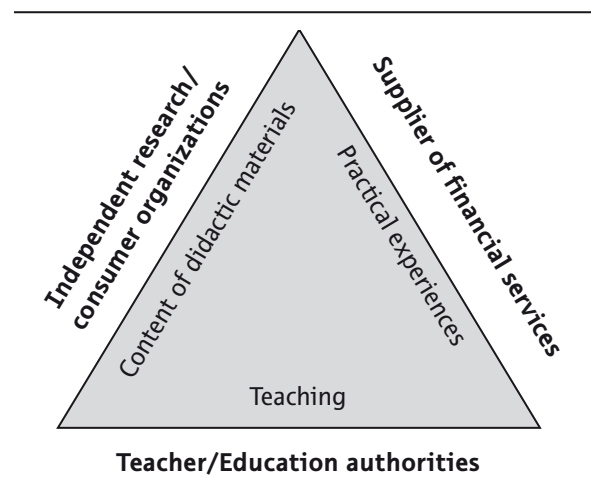
### 3.5 Mutual Learning

Mutual learning in this context means that the banks learn along with the students. Through the kind of practical experiences provided in SchülerBanking, schoolchildren learn to ask good questions, to analyze the responses critically, to represent their own interests and to engage actively in advice sessions. They also gain confidence and learn to influence the market.

But bankers also learn. A core pedagogical principle is that pupils ask, while bankers only answer. As a result, bank personnel learn at least three important lessons.

First, bankers learn to listen. Rather than simply suggesting "off the shelf" financial products, the bankers learn to listen carefully to the questions of the students and to be responsive to them. Second, the bankers come to better understand the interests and needs of the students. Finally, the bankers learn to speak in a language that is adapted to the nature of those they are advising. Because the student provides feedback, it is readily apparent when the advisor has failed to communicate in a way that school children can understand.

**Fig. 3**



### 4. Conclusion

Consumers increasingly have to use financial services in order to manage their lives. The educational system has to provide for the necessary knowledge, skills and social competence. However, unlike financial literacy where a defined set of letters and rules have to be learned, and also quite different to learning methods in which skills like learning to manage tight budgets are taught, consumers need to learn how to use and influence financial services markets in general and the providers of their specific goods and services in particular according to their needs. Using those skills, the consumer can contribute to changing products and provider behaviour in order to have responsible

credit, suitable payment services, adequate insurance and investments which fit the purpose of the saving. Consumers also have to learn how to protect themselves against unnecessary or even dangerous use of profit-driven offers. Such education has to be critical, focus on consumer rights and needs, and foster knowledge alongside human and social competences,

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Michael Schuhen

## A Didactic Reconstruction of the Financial and Economic Crisis

Theoretical approaches to constructivism have put learner autonomy into the spotlight of didactic discourse. Apart from the matter of pedagogic actions on how (constructivistically) organised education might be arranged, this paper focuses on the perspective of didactic reconstruction. Thus, an observation-based research perspective is being adopted in this paper. The epistemic beliefs that have emerged over the course of the global financial and economic depression are reconstructed. The goal of the paper is to provide an insight into these different interpretations. In order to do this, university students were surveyed regarding this topic and the results of this qualitative study on these epistemic beliefs will be represented in this article.

The paper tries to give answers on how students, who have been experiencing the financial and economic depression for nearly three years now, define its causes and what subsequent actions they would recommend. The results show that the main issue is not misinterpretation of political and economic knowledge but rather incomplete constructs based on only approximate knowledge.

### 1. What do we learn from the depression?

After having experienced economic depression for nearly three years, the question whether we have learned from it or not should be pursued more urgently than ever because only the understanding of what might have gone wrong, which factors might have influenced, aggravated or even activated the actual state of affairs, can show us how we should proceed in the future. Learning from mistakes is a fundamental didactic strategy of knowledge generation, or as the saying goes, "mistakes are often the best teachers". Now, the question is, what can we learn from the depression and what have we learned already?

Has the depression caused people to concern themselves more intensively with their economic environment, trying to understand the roots of the depression? And what knowledge has been generated by science, the media and citizens (represented by university students in this paper) to explain the depression?

To pursue this question, this paper generates possible answers and further research questions via didactic reconstruction. First, this paper provides a short introduction to the method and the design of the study. This will be followed by an analysis of the subject matter (in this paper the perspective of the media and the scientific discipline), the presentation of the empirical results generated by the students and a discussion of possible divergences and lacking concepts.

### 2. The constructivist perception of economic education

Theoretical approaches to constructivism have put learner autonomy into the spotlight of didactic discourse, whereas, this paper employs a pragmatic and moderately constructivist perspective according to Stark et al. (1995).

This constructivist point of view promotes metacognition while general learning processes as well as thought processes are being conveyed. In addition, together with the required knowledge, their transferability and non-transferability respectively, essential

adaptions become transparent (*decontextualisation*) (Dubs 2004). Furthermore, through decontextualisation, declarative knowledge (facts and terminology as well as their netlike structures) and also procedural knowledge (employment of facts, terminology, structures and strategic knowledge like cognitive models) become apparent in retrospect (Bransford, Brown, Cocking 2000).

The epistemological position adopted in this paper also relativises the distinction between subject-specific and daily occurrence: subject-specific assumptions do not describe reality the way it is. Moreover, they try to deduce reality through questions and interpretations (Klee 2008). Therefore, reality perceptions of subject-specific and daily occurrences are realised on the same level. It is generally assumed that individuals construct subjective patterns of perception which, compared to subject-specific theories, "function as explanations, predictions and technologies"<sup>1</sup> (Groeben 1992, 42f.). These individual perceptions show "the same coherence as scientific concepts within the respective subject"<sup>2</sup> (Kattmann 2005, 168).

Hence, the research perspective adopted in this paper is an observant one. The epistemic beliefs that have occurred in the course of the global financial and economic depression are going to be reconstructed, where the aim of the paper is to give an "insight into the different possibilities of interpretation"<sup>3</sup> (Schäffter 1998, 105). Therefore, subject-specific representations are frequently replaced by intersubjective models of reality which let reality of media, reality of science, reality of the subject and the reality of the affiliation of the stated aspects become appar-

1 Original quotation: „Funktionen der Erklärung, Prognose und Technologie erfüllen“ (Groeben 1992, 42f).

2 Original quotation: „im Kontext der persönlichen Überzeugungen für die jeweilige Person dieselbe Kohärenz und Stimmigkeit [...] wie die wissenschaftlichen Konzepte innerhalb des jeweiligen Faches“ (Kattmann 2005, 168).

3 Original quotation: „Einsicht in die Differenz der Deutungen“ (Schäffter 1998, 105)



ent (Fischer 2004). In terms of research methodology this means that a reconstruction of epistemic beliefs must search for reductions and or misinterpretations that have occurred over the course of the formation of subjective convictions regarding the financial and economic depression.

By means of didactic reconstruction important subject-didactic research will be modeled with focus on their mutual reference, conditions and interdependence. This occurs by re-establishing their reference to the scientific subject and reflecting the present epistemic beliefs of university students and pupils. The prefix "Re-" in "Reconstruction" means therefore both "new" and "again" (Kattmann 2004, 42).

In terms of research methodology this means that the procedure outlined earlier needs to be revised. Preliminarily, a subject-specific clarification of scientific statements of a content analytic investigation needs to be conducted (Gropengießer 2001, 33 and Siebert 2004). Thereafter, everyday perceptions are empirically collected and assigned to cognitive perception patterns and mental constructs (Kattmann 2004, 44). A subsequent didactic structuring combines topic-specific and everyday life-oriented investigation tasks. According to Klee (2008, 22), besides suggestions on structure, investigated subjects and trend, it should also contain suggestions on methodical implementation of the study. Each level is to be dealt with individually in advance (Stavrou et al. 2003).

### 3. Research framework

The empirical investigation includes a pilot study and a main study. The objective of the pilot study was to provide an initial insight into the students' perception of the financial and economic depression. For this purpose, a multiple-choice questionnaire was employed.

The results of the pilot study formed the foundation for the design of the main study. The goal of the study was to identify the students' theoretical patterns of the depression. Then, the results were compared with the actual scientific patterns. The purpose of the comparison was the identification of possible differences and wrong perceptions, but also parallels that would provide initial evidence for possible acquired perceptions or attitude changes, all derived from the recommendations for procedure. For this reason, the common data collection method of multiple-choice-tests employed in the pilot study was not used this time as this method would at best show cognitive knowledge. This would, however, not reveal any line of argumentation and emphasis regarding this topic. Instead, qualitative research methods were chosen. The communicative act deployed in the design of the study was to have the students write an essay. Thereby, it is necessary to meet the criteria of qualitative research (*openness, communicativity, naturalism and interpretativity*).

The communicative act chosen was an essay about the financial and economic depression that was written by 181 university students of various semesters and with different majors in the winter semester 2009/2010. The students were given 45 minutes to write the essay which was integrated in a questionnaire on financial literacy (for the results, see Macha/Schuhen 2010).

Since the object of the qualitative analysis is to identify the fixed contents and their argumentation structures, the principle of interpretativeness is essential (Mayring 2002, 22; Lamnek 2005, 510). On the one hand, for this purpose, biasing criteria, e. g. educational background, were to be involved in the situational interpretation of the qualitative data. On the other hand, the occurring researcher-object-interaction that exists due to the educational background and the researcher's subjective experience was deliberately classified as a criterion of the analysis (Mayring 2002, 25). However, to nevertheless ensure objectivity in the course of qualitative analyses, the essays were interpreted by means of a fixed scheme used by three independent reviewers. This scheme was based on the process model of material structuring by Mayring (2008, 82). The goal is to identify a certain structure in the used material. The underlying category system in this case results from the subject-specific assumptions of the depression (see also the explanation of the subject structure). The assumptions are applied to the material with a multi-step method, and parts of the text which fit certain categories are then systematically extracted and gathered from the material.

The objective of such a content analysis is to comprehend daily action patterns that are represented by communicative acts. Another objective is the systematisation of argumentation patterns. The overall goal is to find a typecast of perceptions and action patterns in this field by reconstructing the participants' epistemic beliefs (for further information on this, see the studies conducted by Posner et al. 1982 or Vosniadou and Brewer 1987). The students were asked to structure their essay on the basis of the following criteria:

"At present, Germany and the other industrial countries are in one of the greatest economic depressions since the post-war era. (1) Please provide an explanation for the causes, (2) describe the consequential impacts and (3) give recommendations for further political procedures".

"Epistemic beliefs, defined as beliefs about knowledge and knowing, may also be an important individual difference variable that affects students' views of argumentation-based pedagogy" (Nussbaum et al. 2008, 1978). I use 'epistemic' rather than 'epistemological' to refer more narrowly and specifically to students' beliefs about knowledge and knowing.

The collection of epistemic beliefs also correlates with the students' motivation to engage themselves



in their essays in an argumentative manner. As studies have shown (Bell and Linn 2000; Nussbaum and Benedixen 2003), students who see science as a dynamic and constantly changing discipline develop more constructivist epistemic beliefs. Hence, the ability to build more complex and more integrated argumentation structures is much more present among these students. In order to understand the results, subjective statements by the students regarding topics like interest in and knowledge about current issues, curiosity towards and any prior knowledge of the field of economic sciences have been asked about and correlated with the given answers.

To evaluate the data quality, the essays were assigned to evaluation schemes by the reviewers, in addition to the qualitative analysis of the wrong perceptions: *Simple argumentation patterns* that build upon coherence of arguments which try to explain the background of the financial and economic depression. Facts which support the present proposition are applied, yet any further explanations are ignored. Students who have developed more detailed explanations consider alternative theories and facts which are listed in their argumentation and reflected in relation to the overall picture. The latter are referred to as *elaborated argumentation patterns*.

#### 4. Analysis of the topic structure: the origin of the financial crisis

Especially the media mainly conveyed the following cause analysis regarding the depression since 2007: due to years of low level interest rates a property boom could be reported in the US which resulted in a vast increase of house prices<sup>4</sup>. This permanent price increase led to profitable businesses by assigning mortgage credits to households with a rather low degree of creditworthiness. (Ninja-credits, no income, no job, no assets).

As a consequence, the segment of subprime mortgages grew exponentially within a few years. This extensive number of assigned credits had been securitised. This resulted in a tradeable financial product that was purchased by yield-seeking investors, especially since they showed top credit ratings (Spiegel 2009). This sort of business model that can theoretically lead to a more efficient risk diversification has been dubbed *originate to distribute*. However, this business model led to a tremendous concentration of risks that suddenly became vast when the property market environment became adverse and mortgage repayments collapsed. However, it did not become public until Lehman Brothers was declared insolvent. As has been pictured in the ZDF-documentary above,

this depression finally got a “face” (ZDF 2009; Spiegel 2009).

The scientific discourse, which is slowly and only partly conveyed by the media, shows that the roots of the depression must be profound: economists realised that the causes of the depression must be much more complex and dramatic. From a present-day perspective it can be said that the subprime crisis acted as a trigger, but not as the key cause of the global depression. That is because the depression did not only emerge from microeconomic failures. Although securitisation processes were rather deficient in some places, credit lending became more and more extensive and the structured products became too complex and, hence, incomprehensible for the average customer. As a result, the average customer was no longer able to calculate the potential risk and, in addition, the risk management of some banking institutions showed several weaknesses as well (Weber 2008). Rating agencies now found themselves trapped in a conflict of aims: on the one hand, they acted as advisers for product structuring; on the other hand, however, they were responsible for risk assessment. Moreover, their advice was seen as highly reliable, despite apparent lacking awareness that triple A rated, mortgage-hedged security papers fall into a different credit risk category than corporate bonds and government bonds generally known by many citizens. In addition, controversially discussed management salaries gave encouragement to take higher financial risks while rewarding temporary sales increases, which, in the long term, led to a neglect of investment decisions.

Besides these microeconomic and managerial reasons, macroeconomic trends have completely faded into the background. Apart from the burst of the dot-com bubble, a way too expansive monetary policy played an important role<sup>5</sup>. The consequence was surplus liquidity which was transferred into the property sector. This process influenced the capital market participant's risk-taking willingness significantly which, in turn, was politically intended (Weede 2009, 272; Sinn 2009, 118). Another issue to be mentioned: globally unprofitable current accounts. If these show deficits, this provides good evidence for a country permanently living beyond its means, as it is the case in the USA (Lewis 2009, 116f.). At the same time, oil-exporting countries produced current account surplus which, in turn, was invested in US government bonds in order to ward off the pressure to reevaluate their own currency (Wolf 2009, 100). This resulted in a long-term low interest rate level like never before in history, which boosted the need for lucrative yields on the one hand, but on the other, promoted the acquisition of debt capital significantly. The logical consequence was a growing leverage within the entire

4 Spiegel 2009, FAZ-Dossier zur „Hypothekenkrise und Immobilienblase – Eine Chronik“, ZDF „Der große Crash“

5 The interview of Anna Schwartz with Carney 2008; Woods 2009, 2.



financial system. And as a matter of fact, an indebted financial system bears a higher sensitivity for loss of value in the assets (Weber 2008). Finally, another point to be mentioned are certain weaknesses in the control system, i.e. controlling authorities of banking supervision were globally almost unable to properly supervise financial innovations which rapidly became more and more important (Weede 2009, 272; Hellweg 2008; Krugmann 2008, 166ff). Thus, unlicensed banking institutions stayed broadly unobserved (Sinn talks about political failure 2009, 171), where hedge funds, however, have not become the actual problem of the depression. Furthermore, professionals believe that the regulations for financial reporting added more fuel to the fire, especially so-called fair-value-balancing that even made it into the daily press. According to the critics' tenor, fair-value-balancing forced banks to constantly evaluate their securities at current market prices (market-to-market) which resulted in a dependency of bank balancings on the current market development. In the summer of 2007, when market conditions started to escalate, a vicious circle was activated: security prices that included US mortgages collapsed and banks had to make drastic depreciations that decimated their equity. As there was no further supply for new capital, the only solution would have been to sell their problematic securities at any price as soon as possible which, in turn, would have resulted in new depreciations. Moreover, banks would have seen themselves forced to reduce lendings due to the shrinking equity. By applying proper fair-value, such a risk build-up and an aggravation of the depression would not have occurred. That such a widespread opinion is inaccurate became apparent this year (Laux, Leuz 2009).

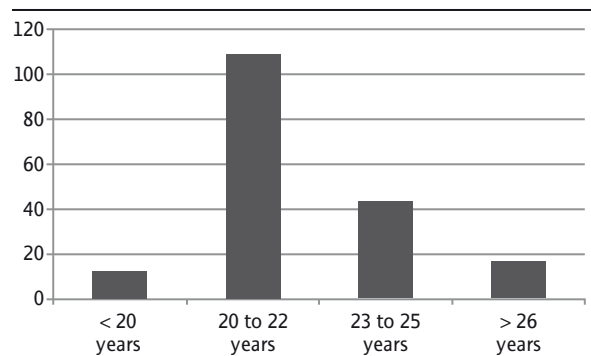
## 5. Results: reconstruction of epistemic beliefs

### 5.1 Statistical results and treatment effects

Of the 181 submitted essays, 32 showed no statement at all and another 6 contained statements that showed no reference to the task, which means that 143 essays were used for the following analysis. The age distribution shows a clear emphasis between 20 and 22 years. This can be explained by the fact that the chosen lectures were intentionally those usually offered in the first semester, as most of the students must have still been in school at the beginning of the depression. This factor reveals many details about how the depression and its causes must have been conveyed in school. The age group 23-25 also contains 10 first semester students who were in an apprenticeship before they eventually enrolled in a university study course. Yet, as the detailed analysis shows, this aspect of professional background does not have any effect on the results. The lectures that were chosen for the survey are embedded in the syllabus of several

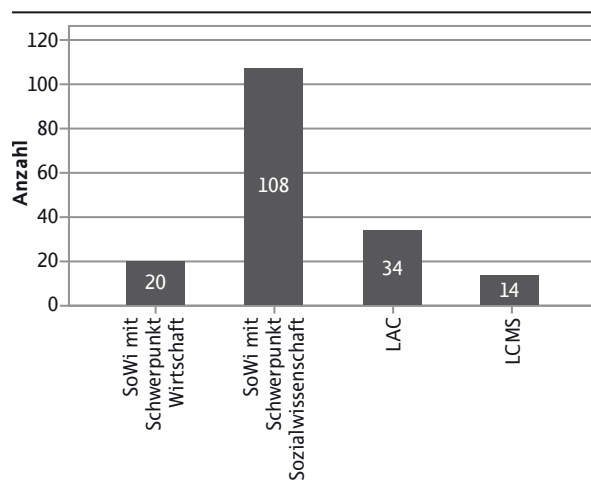
bachelor degree courses of the first and second year of study, but also in the syllabus of teaching degree students of social sciences who are in their first, second or, to some extent, in their third year of study.

**Table 1: Age structure**



Another demographic piece of information to be mentioned is that 124 (68.5 %) of the subjects were female and 57 (31.5 %) were male. Besides the 128 social studies teaching degree students, another 48 students participated who are currently enrolled in other study courses than teaching. They are currently studying the humanistic study courses "Language and Communication" and "Literary, Culture and Media Studies", and minoring in economic science. The social science students can choose a major field of study in their programme. Those who choose economics as their major have to attend twice as much economic lectures than those who major in social sciences.

**Table 2**



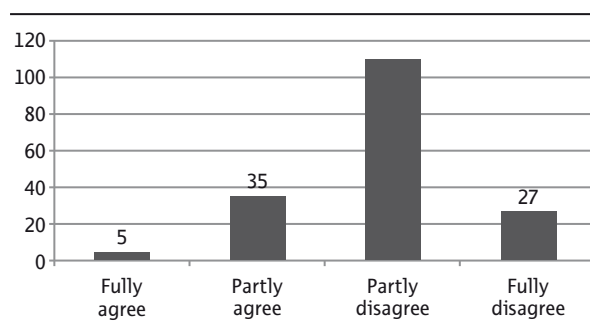
The participants showed a rather carefree attitude (Krapp 1993) towards economic issues by stating that they are not very much concerned about them and are therefore not well versed in this field. The answer to the question whether interest in economic issues and coherencies is confined to their studies splits the



group into two quantitatively equal groups: one that rather or fully agrees and the other one that rather or fully disagrees. According to Krapp's theory of interests, this could be the result of the group's structure which can be sectioned into students who pursue a teaching degree in social sciences (with varying major fields of study) in one subgroup, and undergraduates with a linguistic or humanistic major who only minor in economics in the other.

This assumption does not have any effect either. The correlation between interest in economic issues, the courses of study in higher years and the answers' elaboration showed no significant results.

**Table 3: In my recreation, I concern myself with economic issues and I am well versed in this field.**



## 5.2 Quantitative and qualitative viewing

The data quality of the present essays is pretty ambivalent as, despite the large number of essays, the realisation of the task is rather unelaborated in 75% of the cases, i.e. the length of the texts is less than 8 typewritten lines. However, this is also one aspect that will be further referred to in the concluding and summarising discussion. Yet, it is worth mentioning that 42 of the 181 essays contained more than 8 lines (more than 120 words), and a considerable number of subjects wrote 6-7 lines (90-100 words). Hence, the resulting distribution ranges from 0 to 24 lines.

The evaluation of the answers given by the subjects shows a clear assimilation to the argumentation structure conveyed by the media as well as the topics that have been discussed in the media over a long period of time. These include the recession of market prices and discussions regarding manager salaries and bank insolvencies. However, most of these topics are displayed in a contracted version by simply restricting them to certain keywords or vague proximate causes. Due to lack of explicit knowledge, the presented economic reasoning becomes only viable via personal convictions that are integrated in subjective perception patterns (Siebert 2002). However, many students are aware of the circumstance that their reasoning is incomplete, maybe also one-sided.

Hence, for 14 students, the cause of the depression is a stock market crisis whereby the term *stock market crisis* is unspecified. Student no. 114 writes: "Sudden resignation of major shareholders (at the same time). Drastic decrease in share value that was irreversible because there were just too many. -> Triggered by a chain reaction. Companies went broke because investors resigned. -> increase of unemployment rate".

Other students reduced the causes of depression to avarice (9 answers), to globalisation and to the Eastern European expansion of the EU (7) or neo-liberalism (4). Another argument that came up a lot of times was insolvency of banks and companies (12), whereby the causes of those insolvencies were not further specified as were "problems with credit lending" (34). At least approximately one third of the students (49) consider the US real estate industry and the predominant credit lending conditions to be the cause of the depression. They recognise the problem of lacking soundness and are able to argumentatively undergird why a decline in prices combined with a worsening in credit lending leads to non-payment of credits and therefore to insolvencies of banking institutions as the last consequence. They can elucidate that the interbank market is mainly based on trust which got lost in the course of general insecurity. They demonstrate that therefore the refunding situation of banking institutions dramatically worsened and rather non-colateralised credits were securitised whose evaluation of "true" value now became too delicate. The latter aspect is, after all, mentioned by approximately 13 % (19 students). Those students' essays present a logical root analysis based on an economically comprehensible reasoning that can be found in many print media articles and articles which involve the subject of the financial and economic depression. Yet, a reliable statement regarding group structure (e.g. age and course of study, respectively) is not possible due to its heterogeneity.

Another answer comes from student no. 46: "Causes: After 2001, too much money has been put in the US market (because of fear)-> base of the depression (at least to this degree)-> real estate gambling, i.e. credits were given to people so they could purchase properties. Then, proceeds were announced and, as a result, more and more people started investing in properties which effectively increased their value. The national and international finance system was able to speculate about this business. Unfortunately, it turned out that property owners don't possess that much capital, neither now nor in the future (regarding the credits) ->the dot-com bubble bursts. Result: Our (worldwide) finance system is so closely connected that if one bank develops financial problems, other banks get involved and develop problems as well. After the depression, banks abdicated from their responsibility-> They hardly issued credits (or were at least





hesitant). Therefore, (and also due to media influence) there were no further investments etc. ->depression". Student no. 103: "Causes: dream about property in the USA is over. Speculations with virtual money, warrants, speculative economic policy and bad (shady) credits that were sold together with legitimate credits. Results: When interests increased property owners were no longer able to pay the installments ->property vendue-> property prices decreased. Virtual money became worthless on the stock market -> share prices and investments decreased... Now banks are afraid to lend new credits and investors are afraid of speculative investments". Student no. 123: "It started with the real estate crisis in the USA. Credits were lent that people couldn't pay back and the houses that served as securities became worthless as there were just too many. The dot-com bubble burst and the banks went broke. The bank crashes had a negative effect on the stock exchange which, in turn, caused financial problems in companies. Only few credits were lent to companies. Due to the downswing, companies' product sale went down as well which led to a bad order situation that resulted in insolvency".

Only 10 further students give explanatory statements from a scientific perspective that have not been discussed so deeply in the media. They relate to expansive monetary policy after the new economy phase, imbalances on current accounts and, hence, currency problems, inappropriate incentives on the level of managerial payment and failure of controlling instances. Only three students from various semesters and disciplines talk about more than four aspects that caused the depression.

Logical demand-oriented reasoning in the presentation of the causes of the depression and their resulting implications are rather rare: "The actual most immense depression since the post-war era emerged as banks, especially in the US, have dealt with too many credits. As a result, some of those banks are not liquid any longer and are now dependent on state subventions. This situation is mainly the case in companies as companies who depend on credits are now broke. Now, consumers come into play. They are irritated by the partial non-liquidity and the discussions in the media which all results in a diminished consumption by the consumers. The motto: Rather save money than get a credit denial. Therefore, a decreased demand could be observed recently" (Student no. 9).

In some cases it is obvious that the epistemic beliefs regarding the causes of the depression serve as additional arguments for certain students' perceptions and are therefore often reproduced in a non-reflective manner. For example, student no. 99 stated: "One of the main causes of the depression is the industrialised world's common attitude towards money and financing. This is the only reason why in the USA credits by real estate companies were dissi-

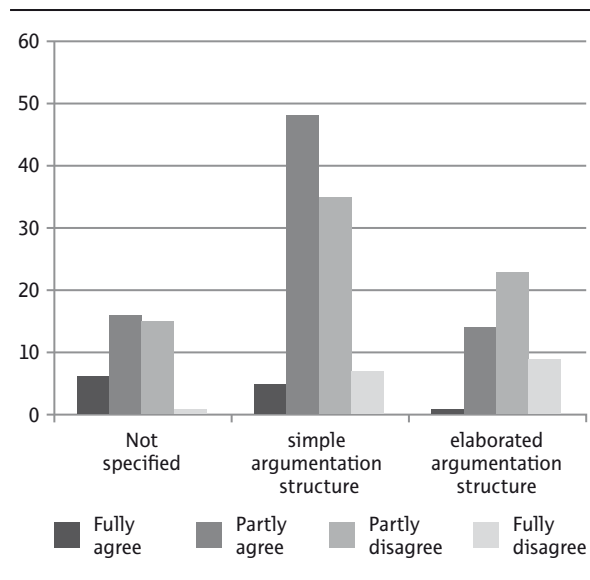
pated to private individuals who could not provide any creditworthiness. Those credits were combined to elusive encoded packages and then sold (No problem thanks to the globalised world!). When people then became unable to pay, it was unclear who is in charge of debt compensation. A knock-on effect appeared and banks now were afraid to lend money to each other and to the industry. Without money -> investments are impossible -> no growth -> savings -> terminations -> people don't have money for consumption anymore -> less consumption -> less gains -> begin of a vicious circle. A recommendation for political procedure would be to explain to people the results of "life on the nod" and to keep them away from avarice. When the society's attitude changes, its buying behaviour will change as well (no down-market-products from China while one's own society is in a sorry state). People must understand that the car-scrap bonus, for example, only makes matters worse". Student no. 110 instances similar aspects: "The cause is the greed for profit of share holders (or of humans in general) and the careless control about all the things happening on the equity market, in banking institutions and other economic areas. Furthermore, it is hard to keep track of money transactions (money is only a number on a pass sheet but nothing tangible anymore) and many deals became intransparent and incomprehensible. Another problem is (was) the property market and the resulting willingness to take risks and the credit requirements in the USA [...]".

Moreover, the political recommendations of action are interesting. It becomes obvious that the depression – maybe also due to calls by politics – led to the word "control" being one of the most frequent words in the recommendations. Recommended are: "control of rating agencies", "control of private bank customer counseling", "the control of manager salaries", but also "the control of stock markets and companies". The state is required to take a more active and intervening position. Only few students see the state as a function providing guidelines and principles, as conceptualised in the social market economy ("Ordnungspolitik") of the Federal Republic of Germany. According to this function of the state, it should only intervene in the case of market failure.

The state is not only asked to take a more active position on the controlling level, but also on the level of economic policy: multiple fiscal political actions to the point of a call for nationalisation of banks and companies are suggested. Nevertheless, there is a considerable number of students who have a critical opinion towards governmental interventions and the actions mentioned above (like, for example, stimulus packages from the government and bonds for Opel). The dominating answer in this field, however, is that the subjects themselves do not know what to do but consider the vast debt increase as the problem.

This equals the classification conducted by the reviewers: 96 of the 143 essays were assigned to the category ‘simple argumentation structure’; the others were assigned to ‘elaborated argumentation structure’.

**Table 4: My interest in economic issues and coherencies is confined to my study program**



## 6. Discussion

The quantitative and qualitative results are partially disillusioning. Many students show a huge lack of knowledge regarding the causes of the depression. This may be, on the one hand, due to a poor educational background in the fields of economics and finances. However, for the group of students aged 20 to 22, this reveals that current economic topics from 2007 and 2008 were not subject-matters in class. On the other hand, this finding indicates another problem which can be referred to as the participation in social and economic questions as a matter of responsibility (Schuhen, Neubauer 2009). Apparently, even students who minor in economics do not engage themselves in economic issues. If they did, they would at least have been properly informed and would have been able to

reproduce the argumentation structures conveyed by the media accordingly. It was expected that at least the advanced students would come up with more elaborated concepts and reasoning. However, this was not the case.

The conclusion can be drawn that wrong perceptions regarding the depression have been revealed via didactic reconstruction to a lesser extent. Rather, the revealed concepts are incomplete. The students only show approximate knowledge, regardless of their age, educational background, phase of study and gender, which is mainly influenced by the chosen source of information and the students’ interest in the topic. Moreover, the question needs to be asked whether the complexity of the topic itself and its various causes might have led to some kind of resignation which – due to lacking economic knowledge – interferes with the willingness to understand the issue. However, in respect to the advanced students, it needs to be remarked that not only have schools failed to address actual topics, but also the university. In addition, besides the type of the uninformed and the type of students who receive information from the media and those who are well-versed in this topic, another type has been filtered out: Namely those who construct faulty economic arguments based on ideology.

It was also expected that at least students of higher semesters would be able to provide more elaborated arguments and concepts. Taking this to the next level raises the question of how these students – who to some extent are going to be teachers – ought to put across an understanding of the topic. How are they supposed to introduce students to structures that go beyond the media reports if they do not even observe them themselves? Should we not develop a new understanding of socio-scientific studies apart from the introduction of basic – as well as economic – knowledge? Does this imply the need for another kind of teacher who is interested in current affairs and economic trends and who questions them in order to be able to teach them properly? Do we not need a type of teacher for socioeconomics who is able to distinguish daily concepts of students about the effects of the depression on state and society from his or her own epistemic beliefs in order to compare them to economic and socio-theoretic concepts?



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Elisabeth Chatel

## Economics as a Social Science in French *lycées*: A Programme Shaped by the Evolution of a School Discipline

Since the end of the 1960s, courses in economics have become established in French *lycées* for pupils aged approximately 16 to 18 as part of both the general and technological (services) streams. There are no other specific programmes in economics at the other levels of the school system. In lower secondary schools (*collèges*), which cater for children aged between 11 and 15, economic phenomena are presented in a somewhat descriptive manner during history and geography lessons. These descriptions introduce children to an economic vocabulary that includes terms such as GDP, productivity, inflation, growth and development. However, the acquisition of this vocabulary does not lead on to the teaching of any real economic arguments, nor of economic concepts or theories in the strict sense. Economics as just defined is not taught in the vocational streams either.

The aim of this article is to characterise the teaching of economics that is provided in the general streams of French upper secondary schools as part of a subject called Economic and Social Sciences (ESS). It is here that economics teaching is most heavily concentrated; furthermore, it is the only one of the two economics programmes in French *lycées* for which curriculum studies exist. The article will show that, despite the considerable changes it has undergone, this programme has retained the critical and socially aware approach that has been present since it was first established. It was by no means evident that such an approach, inspired originally by the work of historians of the *Annales* school, would be adopted, even less retained, since it goes against the grain of developments in economics at university level, both in French universities and internationally, during the two decades between 1980 and the year 2000 (LeVan Lemesle 1983; Le Merrer 1990). During this period, the economics taught in universities became less descriptive and more formalised and moved away from the other social sciences. Economists have become increasingly adept at manipulating models and have ceased to view economic and social problems from an historical perspective (Hogdson et al. 2009). The teaching of economic and social sciences in French schools has not followed this course and has been challenged on numerous occasions, most notably by academic economists and employers' representatives. The fact that its original critical approach has been maintained is due in no small measure to action taken by teachers.

The article aims to characterise the economic knowledge transmitted in the course of this programme and, adopting a socio-historical perspective to the curriculum, to explain the reasons for its presence. After all, the school curriculum, even in general subjects and the final years of secondary school, is not a mere reflection of the corresponding fields of academic knowledge but rather a composite of various forms of knowledge. These reconstituted bodies of knowledge have to be characterised. We will show that, in this case, the subject being taught, namely economics, has been shaped by the evolution of what we call a 'school discipline'. The strength of this framework makes it possible to understand the initial choices that shaped the programme as well as the changes it has undergone subsequently, particularly as a result of the influence exerted by teachers. In a previous article, we demonstrated the importance of the notion of 'school discipline' in shaping the sociological content of economic and social science programmes in French *lycées* (Chatel 2009)<sup>1</sup>. The present article adopts the same analytical approach, this time bringing it to bear on the economic dimension of the programme.

A 'school discipline' according to Chervel (1988), is an 'institutional form' that makes knowledge teachable. This does not mean that a 'discipline' is the only form that subjects take in school systems<sup>2</sup>, but simply that the economic and social sciences that are the object of investigation here have the characteristics of what Chervel (1988) calls a 'school discipline'. Such a discipline has the following characteristics: a body of knowledge, established teaching and evaluation practices and a body of teachers dedicated to the subject. In introducing this notion of 'school discipline', Chervel was rebelling against the idea that school subjects are mere downward transpositions of the corresponding academic disciplines. He suggested that they should be seen rather as expressions of the cultural creativity of the school system and its ability to make various forms of knowledge teachable, thereby enabling that knowledge to be transmitted. This concept was developed as a means of taking account of the fact that the teaching of grammar was first introduced into schools in order to facilitate the teaching of French spelling (Chervel 1977) before it was con-

1 The factual aspects of this discipline's evolution will not be repeated here, since readers can refer to this previous publication.

2 J.L. Martinand proposes the term 'curriculum matrix' (Martinand 2001) to denote curricular arrangements that are not necessarily 'school disciplines' but do, nevertheless, have an impact on the actual curriculum.





stituted as a body of academic knowledge. These observations are akin to those of Goodson (1981) on geography. Goodson showed that geography was taught in schools for utilitarian and pedagogical reasons well before it became an academic discipline. It is the need to provide instruction that explains the composite nature of the various forms of knowledge included in school disciplines. For Chervel, school disciplines are instructional apparatuses established for educational purposes. In order to understand the changes they undergo, it is necessary not only to examine the documents that stipulate what it is to be taught but also to combine such an examination with an analysis of teaching practices. An approach of this kind better reflects the reality of a curriculum in which teachers' freedom is restricted by pupils' concerns. 'The teacher lies at the heart of the process whereby objectives are transformed into instruction' (Chervel 1988, 78). As a consequence, changes in the knowledge contained within school disciplines arise out of a social process that is not controlled solely by changes in academic knowledge nor solely by curriculum prescriptions. Any investigation of a school discipline has to take into account the activities of the teachers charged with delivering the corresponding curriculum. As Musgrove (1968) noted, teachers can constitute genuine 'social communities' that inspire a sense of belonging, develop their own values and customs and influence curriculum content and teaching practices.

Economic and social sciences as taught in French secondary schools illustrate this notion of the school discipline. We will demonstrate in this article the role played by the teaching body in shaping the economic knowledge taught in economic and social sciences, in particular the part they played in certain shifts in curriculum content. This is one effect of the logic of this institutional form, which encourages teachers to unite in defence of a professional cause. In accordance with the conceptual framework developed by Chervel, we will show how they influence the actual curriculum. We will also show, in line with other studies in the sociology of the curriculum, that they influence the formal curriculum as well.

The economic dimension is a major part of the economic and social sciences programme (ESS) and attracts interest from social groups outside the education system, particularly from spheres close to French business and industry. These groups have intervened repeatedly in the past and again very recently, between 2000 and 2009, with the aim of changing the programme's content, which in their view shows business and enterprise in an unfavourable light<sup>3</sup>. The

teachers responded by expressing their support for the approach they favour and attempting to demonstrate that, on the contrary, the programme conveys a pluralistic and empirically well-founded image of business (Beitone and Hemdame 2005; Martin 2008; Chuppin 2009). This episode, which is not yet concluded<sup>4</sup>, is evidence of the constant vitality of ESS teachers' influence on the prescribed curriculum, either when responding to criticisms or taking the initiative themselves.

We will attempt in this article to define the economic knowledge taught within this discipline. It is assumed that such knowledge is, by definition, composite in nature. In order to characterise this composite body of knowledge, we will make use of the categories that are used in economic thought. They will serve to characterise the economic content of the ESS curriculum.

We will begin by offering a general overview encompassing the two economics programmes taught in French *lycées* in order to compare the approaches adopted and the objectives pursued in each case. We will then outline the evolution over time of the prescribed curriculum for the economics and social sciences programme, highlighting the role played by teachers, initially, in this second part, on the political level. Then in the third part, we will examine the influence they have exerted through the actual implementation of the syllabuses, the assumption being that the actual content of their teaching may very possibly have led to changes in the prescribed curriculum.

### **The teaching of economics in upper secondary schools**

Economics was first taught in French *lycées* during the 19<sup>th</sup> century. Introduced when Victor Duruy was minister of education under the Second Empire, it was abolished in 1887 with the establishment of the stream set up by Duruy in order to train businessmen or 'knights of industry' as they were called at the time. Some political economy was still being taught for a time thereafter in certain philosophy classes, as is evident from textbooks, but even that eventually disappeared altogether (Chatel 1989).

The establishment of new streams in *lycées* after the Second World War led to the re-emergence of economics teaching in 1952 in a stream that at that time had very few pupils<sup>5</sup>. It was not until 1966, when French *lycées* underwent significant reforms, that economics

3 Positive entreprise, *L'entreprise dans les programmes scolaires, Les sciences économiques et sociales au programme de seconde, 2007*, URL : <http://www.ppositive-entreprise.org>

4 On 2 December 2009, having organised a petition signed by 700 social science academics, ESS teachers demonstrated in the streets against the plan put forward by the Minister of Education, Luc Chatel, to reduce the teaching time devoted to economic and social sciences in the first year of upper secondary school (*classe de seconde*) in favour of the applied economics programme. APSES website.

5 BOEN (*bulletin officiel de l'éducation nationale*) dated 5/6/1953.



as such re-emerged as a subject taught in both of the newly established baccalaureate streams<sup>6</sup>, the technological (services) stream and the general economic and social sciences stream. Over the next 40 years, these two streams were to attract increasing numbers of pupils<sup>7</sup>. The content of the economics curriculum was also to change, although it was shaped to some extent by the specific streams in which the subject was being taught, leading to differences in the main focus of the economics teaching provided in the two streams.

The technological (services) stream<sup>8</sup> was established primarily in order to prepare pupils for entry into the labour market. Gradually, particularly in the 1990s, this objective lost ground to that of preparing pupils for studying technological subjects at post-secondary level; by 2004, this had become the dominant objective. From the very outset, the aim of the general economic and social science stream was the acquisition of a humanist culture in the field of social sciences (Prost 1986). It was not until after 1982 that preparation for university courses in economics and social sciences was also listed as an objective. However, before entering these two streams, many pupils take an economics and social sciences option<sup>9</sup> in *seconde*, to which 2½ hours a week are devoted. This is an introductory programme, the economics part<sup>10</sup> of which seeks to familiarise pupils with the main actors in economic activity. The emphasis is on firms and the interdependencies between economic actors and between economic activities and on the coordination thereof through the market. At the macroeconomic level, these interdependencies are represented by a circuit diagram. The effects of this programme on pupils who do not continue their education in a stream in which economics is taught are not evaluated. Consequently, we will not pursue this subject any further; for pupils who continue into one of the streams named above, this programme constitutes an introduction. The following comparison between the two economics programmes aims to locate them relative to each other in terms of the prescribed cur-

riculum. It is based largely on an analysis of the prescribed curriculum, which is published in the official gazette of the national education service (BOEN). As far as economic and social sciences are concerned, other analyses have been carried out and published previously (Chatel 1990; 1995; 2001).

#### *Economics in the technological (services) stream*

The technological (services) stream comprises several areas of specialisation linked to various areas of economic activity (accounting, business, secretarial work, IT etc.). They constitute the various options in the technological (services) stream as well as the areas of specialisation for teachers. This stream has undergone radical change in recent years. The areas of economic activity have been regrouped under different headings; in 2004, they were entitled: 'communication and management', 'marketing', 'corporate accounting and finance' and 'management of computerised systems'. Above all, however, the general approach of the various programmes places less emphasis on competences than on more notional forms of knowledge. The objective of preparing pupils to study technological subjects at university level has led to changes in the prescribed curriculum. Economics is taught in all these areas of specialisation, in both *première* and *terminale*. As far as this economics programme is concerned, we shall refer to it here as a 'subject'<sup>11</sup>, without prejudging whether or not it can in fact be regarded as a school discipline, since not all the defining characteristics appear to be present. In particular, the teachers of economics do not constitute a group with clearly defined and stable boundaries.

Even since the stream was established, economics has been paired with law, that is the two subjects have been taught by the same teacher. Between 1966 and 1992, it was also combined with business economics<sup>12</sup>. After 1992, the subject known as business economics disappeared when it was incorporated into general economics. In 2004, however, a new subject relating to businesses was introduced under the title of 'Organisational Management'. Economics as such is still paired with law, although the link between the two subjects is not very evident, since care is taken to keep them separate. The baccalaureate examination, which has been in written form since 1989, still comprises two parts, one economic, the other legal. At one time, efforts were made to establish a form of interdisciplinarity by setting both papers on the same topic, such as the act of selling or supplying, un-

6 This concerned the last two years of secondary school, i.e. *première* and *terminale*, and young people aged between 17 and 18 on average.

7 In the general economic and social sciences programme, there were 98,470 pupils in *première* in 2007 and 98,035 in *terminale* (general stream); in the management sciences and technologies programme in the same year, there were 75,295 pupils in *première* and 85,527 in *terminale* (technological (services) stream). Source: Ministère de l'Éducation nationale (2009)

8 It was known first as the *technical* stream and then, from the 1980s onwards, as the *technological* stream.

9 An option that can be supplemented by a management option. There were 513,000 pupils in this stream in 2007 (Ministère de l'éducation nationale 2009).

10 The programme also has a 'social' dimension; pupils study, among other things, the family, social integration, the role of the education system and of associations, etc.

11 We define a 'subject' as a branch of learning that forms part of pupils' timetables and has a title and a formal programme, without prejudging its curricular form.

12 BOEN no. 42 of 28 November 1965; no. 44 of 20 November 1969; no. 6 of 10 February 1972; BO special issue of 24 September 1993.



employment, redundancy, etc. However, the resulting examination was judged to be too difficult for the pupils and the efforts were abandoned in 2004.

The economics programme itself has evolved as a result of changes in the divisions between the various branches of economics: general economics, business economics and then a partial regrouping into a single subject called simply economics. Further changes have resulted from the shift away, since the end of the 1990s, from the original objective of preparing pupils for entry into the labour market in favour of the newly declared objective of preparing pupils for study beyond the *baccalauréat*. As a result of this new emphasis, the economics syllabuses in the two streams have converged to a certain degree, as is evident from the preambles, in which their educational aims are set out. In the economics programmes offered in the technological stream in the 1980s, economic activity was presented as ‘the problem of fighting against scarcity’. This definition is in line with the dominant thinking within the discipline, in which economics is defined as the science of optimising scarce resources, albeit without any further clarification as to the specific (substantive) nature of the activities regarded as ‘economic’. In the 2004 syllabus for the technological stream, it is stated in the preamble<sup>13</sup> that the aim is to enable pupils to ‘understand the contemporary world from the point of view of the relations between people engaged in production, exchange and consumption’. This definition of economic activity focuses on the ‘relations between people’; this merits closer attention, since it gives a social dimension to economic activity and is, moreover, ‘substantive’, since activities regarded as economic are specified (production, exchange and consumption). As far as these programmes are concerned, this constitutes a new approach. It marks a shift towards a view of economics that is less utilitarian and more political. This broader aim should be viewed in the context of the new objective of preparing pupils for higher education. According to the documents introducing the programmes, the aim is to ‘make pupils responsible economic actors and citizens’. To this end, they are to acquire knowledge of a number of basic economic concepts and mechanisms and to develop their critical thinking.

#### *The purpose of economics teaching in the general and technological (services) streams*

Ever since it was established in 1967, and continuing right up to the present, the declared aims of the economics programme in the general stream (within the economic and social sciences track) have been fairly similar to those for economics in the technological stream since 2004. The preamble to the programmes

currently being taught in economic and social sciences formulates their objective as follows: ‘To foster the acquisition of knowledge and understanding of contemporary economies and societies and thereby contribute to the education of citizens able to understand the issues at stake in economic and social choices<sup>14</sup>’. It is further stated that, in order to prepare pupils for higher education, the programme will seek to give pupils a broadly based education focusing on the ‘manipulation of knowledge and command of analytical tools and methods’. The two programmes have other points in common, notably their general organisation: in *première* the main focus of the economics teaching in both streams is national economic activity, coordination through the market and the regulatory role of the state, with the international dimension and globalisation being left until the final year (*terminale*).

Despite these signs of convergence, there are also considerable differences between the two programmes, which are revealed by examination of the most recent syllabuses. The economics programme in the general stream is more highly developed and detailed than that in the technological stream. In the general stream, money, credit and financial institutions are studied from the *classe de première* onwards. Here, economics is conceived from the outset as monetary and financial. In contrast to the curriculum in the *classe de première* in the technological stream, the fiction of an economy without money is not constructed for the purposes of simplification. Above all, the economic and social dynamic is the guiding theme of the programme in *terminale*. Difficult topics such as growth, crises and economic and social policies are included in the syllabus and are all investigated in some detail and in their various aspects (finance, commerce, production, investment, technical progress, employment etc.). The theoretical dimension is also much more evident than in the technological stream. Furthermore, pupils have the possibility of studying economic theory in greater depth by taking a 2-hour weekly option that does not exist in the other stream. In this optional course, pupils examine original writings by key figures in the history of economic thought, including Adam Smith, David Ricardo, Karl Marx, John Maynard Keynes and Joseph Schumpeter<sup>15</sup>. Finally, in the economics programme in the general stream, there is a constant concern to point up the links between economics and the other social sciences. For example, alongside the writings of economists, pupils study the basic texts of other social science theoreticians, such as Alexis de Tocqueville, Emile Durkheim and Max Weber. This is a point to which we will return later. Overall, 4 to 6 hours per week are given over to economics and social sciences in *première* and be-

13 BO special issue no. 1 of 12 February 2004 and BO special issue no. 2 of 24 February 2005.

14 BO no. 28 of 12 July 2001

15 BO special edition no. 7, 3 October 2002.



tween 5 and 7 hours<sup>16</sup> in *terminale*; this equates to a share of the weekly timetable of between 17 and 24% in *première* and between 22 and 30% in *terminale*<sup>17</sup>, with more than half of this time being devoted to the programme's economic aspects.

In the technology (services) stream, less time is allocated to the teaching of economics than to economic and social sciences in the general stream. The main focus of the curriculum offered to pupils is different in the two streams. As we have seen, economics in the technology stream is paired with law, with the two taking up a total of 4 hours of the weekly timetable in both *première* and *terminale*; economics itself is allocated 2 hours per week, or 7.25% of the weekly timetable<sup>18</sup>. Moreover, although the curriculum retains an explanatory dimension, it is limited by the lack of timetable hours. Pupils have many other technological subjects to study, which are allocated a much greater share of the available time. In *première* they also study organisational management (2 hours), information and management (3 to 5 hours<sup>19</sup>) and information and communication (3 to 5 hours). In *terminale* the subjects in their specialist areas (marketing, accounting and finance – see above) take up 8 hours per week. In these specialist subjects, they learn specific technologies. Economics and law are also classed as technological subjects and have therefore to be placed in context with all the other subjects dealing with service-sector technologies<sup>20</sup>. Consequently, the objective of the economics and law courses is to help pupils understand the wider context in which firms or organisations in the areas of activity corresponding to their chosen areas of specialisation (accounting, commerce, etc.) operate. The study of economics as a sphere of knowledge and approach to understanding the world in its own right is not the primary objective in this stream. On the other hand, this is precisely the goal of the economic and social sciences programme in the general stream, in combination of course with other subjects<sup>21</sup>.

The purpose of these observations on the syllabuses for the two streams was to locate the two economics programmes that are taught in French *lycées* relative to each other and to show that, despite some degree of convergence in course contents and objectives, the main focus of the two programmes differs.

Whereas the aim of the economic and social sciences programme is to provide students with the knowledge and analytical tools to understand the economic and social world and the changes it undergoes, the economics programme in the technology stream is just one of many technological subjects whose overall objective, as the title of the stream suggests, is to familiarise pupils with management technologies.

### **The evolution of the economics programmes in the economic and social sciences track: increasing theoretical requirements**

Economic and social sciences has evolved into a school discipline in the course of a fairly turbulent history in which one of the major bones of contention has been the nature of the economics teaching to be provided.

This programme was established as a social sciences programme with an economics element that was taught alongside courses in history, demography, anthropology, sociology and, to a lesser extent, political science. The programme was designed by historians and geographers close to Fernand Braudel and the *Annals* School. Their aim was to set up an economic and social sciences programme based on a critical standpoint and legitimated by their academic work. They were able to recruit a body of young teachers to implement the programme, most of whom had studied economics only at university. These young teachers were enthusiastic about the programme, despite their lack of training in the other social science disciplines. These initial objectives were subsequently modified and clarified, having encountered difficulties resulting from the fairly savage criticism to which the original plan was subjected. Two major changes to the programmes occurred in 1982 and in 1995, with occasional minor changes being made, amounting to nothing more than tidying-up or clarifications of topics (in 1988 in the case of the syllabus for the *classe de première*, in 2002 in the case of *terminale*). Our presentation highlights the major changes in order to show how they have affected the general organisation of these programmes<sup>22</sup>. It reveals changes that have maintained the programme's original multi-disciplinary approach to the social sciences while making it more analytical.

#### *The 1982 syllabuses compared with those of 1967*

Between 1960 and 1970, there was concern in certain circles outside the education system about French people's perceived ignorance of economic matters. In 1970, the journal *Patronat* published an article advocating the introduction of a secondary school course in economics, although it also expressed fears that

16 Depending on whether or not pupils choose the advanced option.

17 Author's calculations based on BOEN no. 33 of 14 September 1995, Organisation et horaires des classes de Premières et Terminales des lycées généraux. The timetables have not changed since this date.

18 BO no. 7 of 12 February 2004 and no. 2 of 13 January 2005.

19 More time is allocated to the main subject in pupils' chosen specialities.

20 These technological subjects are supplemented by general classes such as history/geography, languages, philosophy etc.

21 Such as history, geography, philosophy etc.

22 A comprehensive analysis was published in Chatel 1990 for the period 1967-1988 and in Chatel 2001; 2009 for the period 1988-2002.





such a course could become politicised. The Economic and Social Council also expressed concern at the time about this perceived ignorance, although it appeared to be unaware, as was the employers' association, that an economic and social sciences programme already existed in French *lycées*. In the 1980s, groups outside the education system were to criticise very strongly the teaching of economic and social sciences in *lycées*. The criticism focused in particular on the multi-disciplinary approach adopted in ESS and the 'active' teaching methods employed. *Perspective et réalités*, an economic and social affairs think-tank close to the right wing of French politics, was also concerned about the content of the ESS curriculum. This criticism was to be taken up by academic economists and eventually gave rise to a plan to abolish the newly established (in 1977) *agrégation*<sup>23</sup> in economic and social sciences (ESS). The economics programme in the technological (services) stream was put forward as the model to be followed and a ministerial commission chaired by an academic, Professor Joël Bourdin, proposed that this subject should replace the economic and social sciences programme. At the time, the general economics that was taught in the technological stream conformed to the criteria of the dominant approach more closely than it does today, as we have already seen. Furthermore, it did not have the distinctive characteristic of being combined with other social sciences, such as sociology or economic history. Nor did it have any interdisciplinary pretensions; as now, it formed part of a set of subjects given over to the 'technologies of management'.

At this point, secondary school teachers of ESS joined battle with their critics in defence of the discipline. They argued in favour of an interdisciplinary approach, and in particular the programme's 'social' component', and of their active teaching methods. It was the eve of the 1981 presidential elections in France, and they found allies on the left of the political landscape among economists in the upper reaches of the civil service and academics in all the social sciences. However, their main support came from pupils and their families. The teachers won this battle and their victory led to a significant change in the syllabuses which, paradoxically, saw a decline in the influence of historians linked to the Annales School and a rise in that of left-wing economists and also of sociologists. The historical and geographical elements faded away while economic and social analysis gained in strength in a new approach influenced partly by the work of INSEE, the French government statistical service; the new programme relied to a very large extent on the statistical data produced by this state

organisation. This change of direction is reflected in the subject titles:

Titles of subjects taught in economic and social sciences

**1967:**

*Seconde:* Introduction to economic and social phenomena

*Première:* Economic and social life of the nation

*Terminale:* Growth and development

**1982:**

*Seconde:* Economy and society: an introduction

*Première:* Economy and society in France (structures, organisations, social and political institutions; economic structures and mechanisms; economic and social role of the state)

*Terminale:* Economic development and social change (economic and social changes in capitalist countries; economic and social changes in industrialised socialist countries; developing countries and their place in the global economy)

The first thing to note is the absence of any reference to 'phenomena' in the 1982 title of the course for the *classe de seconde*. This reference had been a subject of debate among teachers, who concluded that it was not admissible on the grounds that any analysis of society required the phenomena to be investigated to be constructed in such a way as to render them teachable, a process that was a form of conceptualism. Similarly, the syllabus for the *classe de première* has a different title, with the term 'economic and social life', which does not correspond to any economic or sociological conceptualisation, giving way to 'economy and society in France', which denotes an entity more in keeping with academic terminology. It should also be noted that the adjectives 'economic' and 'social' are still associated with each other; the subject had been challenged over this decision to qualify economic issues as 'social' and the retention of this dual qualifier indicates the deliberately multidisciplinary approach adopted for this programme.

The final point to be made is that the 1982 syllabus for the *classe de première* is organised around the notion of 'structure', while that for the *classe de terminale* is organised around the notion of 'system' (through the expedient of highlighting the differences between the economic and social organisation of capitalist, socialist and developing countries). The terms 'structure' and 'system' denote a way of integrating the economic and social dimensions. The word 'structure' is not specifically explained in the accompanying documentation and no reference is made to 'structuralism'. It should be noted that, following the 1980-81 dispute, the syllabuses were amended to produce the ones for 1982. They were drafted in collaboration with senior officials at INSEE, acting as academic guarantors, and the teachers who had won the political battle. How-

23 This is the most selective competitive examination for recruiting teachers for this subject.





ever, these teachers generally had studied economics only and had little or no background in sociology<sup>24</sup>. In French economic thinking of the early 1970s, economic systems were characterised by specific structures. Thus, in these redrafted programmes there are echoes of the studies carried out at INSEE in the late 1970s on the 'structures of the productive system' and also of the terminology used in the university economics courses<sup>25</sup> that the teachers and young inspectors of schools of the time had taken.

*The 1995 programmes compared with those of 1982*  
The changes in Eastern Europe following the disintegration of the socialist bloc, as well as the diversity of modes of development observed in the Southern countries, made it necessary to review the organisation of the programme in the *classe de terminale* at the end of the 1980s. An opportunity arose in 1995, when a plan for a general reform of French *lycées* was announced. The Professional Association of Teachers of Economic and Social Sciences (APSES) seized this opportunity to raise the profile of sociology and political science in the syllabuses. They were supported in this by a number of prominent sociologists, such as Henry Mendras and Christian Baudelot (Chatel 2009). Nevertheless, the tendency towards greater precision in the drafting of the syllabuses and increased theoretical content was still present at this time. It was particularly evident in the introduction of advanced options into ESS in 1995.

Titles of the subjects taught in economics and social sciences

**1995:**

*Seconde*: Economic and social life (life in society, consumption and production)

*Première*: Economic mechanisms and social organisation (Economic activities and their social framework; regulation of economic and social activities)

Advanced option in *première*: Political science

*Terminale*: Economic and social change: growth, development, disequilibria (The economic factors in growth and development; processes of social change; crises, modes of regulation and dynamics of development);

Advanced options in *terminale*: original writings to be studied in conjunction with certain topics. For example, Smith, Marx and Keynes are associated with the 'Work and employment' topic, Schumpeter with the 'Investment, capital and technological progress' topic,

and so on. Some economists (Marx and Keynes) are associated with several topics.

These programmes maintained and strengthened the multidisciplinary approach by introducing an advanced option in political science. The aim of embedding the teaching of economics within a more broadly-based social sciences programme was confirmed. Thus, in the *classe de première*, 'economic activities' are studied 'in their social context', the implication being that social contexts shape economic activities. The incorporation of the institutionalist approach to economics is evident in the introduction of a new topic entitled 'The institutionalisation of the market'. The market is conceptualised not simply as a 'mechanism' or concept developed by economists but also, in accordance with Karl Polanyi's<sup>26</sup> insights, as a social and historical reality. The adoption of this approach to the market marked a turning point and demonstrated that those responsible for drafting the programme were in tune with the institutionalist and neo-institutionalist schools in economics that were changing heterodox thinking in economics.

The relationship between the economic and the social dynamic, which is studied in *classe de terminale*, is a question not addressed in mainstream economics, whereas it lies at the heart of this final-year syllabus. In the 1982 syllabus, social change was seen as a consequence of economic change. In accordance with Marxist thinking, social change was explained in essence by the dynamic of infrastructures, with the structures that make up systems constituting entities characterised by a certain degree of coherence. The designers of the 1995 syllabus did not specify a preferred theoretical approach to the question of the relations between economic and social change; rather, they added the study of economic and social change to the syllabus without presupposing any particular order of causality between these two orders of phenomena. In so doing, they were explicitly taking account of the plurality of theoretical approaches available to social scientists seeking to address the difficult question of the links between economic and social change. They make this theoretical plurality one of the syllabus's main principles. The advanced option in *terminale* adopts a similar approach, with the plurality in this case resting on the study of a number of original writings by key figures in economic thought.

The difference between the wording of the syllabus for the *classe de seconde* and the more analytical wording of those for *première* and *terminale* is also worth noting. In *seconde*, the term 'economic life' reappears, even though it does not correspond to any concept in the social sciences. This probably reflects a concern to take pupils' preconceptions as a starting point for teaching, in contrast with the much more obviously

24 Interviews in 1988 with Henry Lanta, acting as General Inspector and co-editor of these new syllabuses, and Lanta (1989).

25 Before 1970, the final-year economics course at university was entitled 'Systems and structures', which was also the title of a university textbook by André Marchal (*Systèmes et structures économiques*, PUF, 1959).

26 Let us cite in particular *La grande transformation* (1944).



intellectual aspirations of the syllabuses in *première* and *terminale*.

The tendency to make the syllabuses in *première* and, especially, *terminale* more conceptual and theoretical is evident from these developments. This has remained true in more recent years (2001; 2003) under the influence of a small working group, operating under the auspices of the Ministry of Education and chaired by a university professor of economics, J.L. Gaffard, and of the members of this group who are mainly teachers in the *classes préparatoires*. The *classes préparatoires* are highly selective post-*baccalauréat* classes that prepare students for the competitive entrance examinations for the elite *grandes écoles*. This has been the subject of a debate that has found an echo in the journals associated with the discipline. Some ESS teachers fear the changes will make the programme inaccessible to pupils, while others see it as a guarantee of its academic credentials<sup>27</sup>. However, the issue has not given rise to any real protest movement among ESS teachers, who are quick enough to raise objections when they feel that the fundamental principles of their discipline are being called into question. Indeed, as we have seen, they are able in such situations to mobilise themselves very effectively to take the necessary political action. Thus, this change in the intellectual requirements has been accepted; at most, it is a subject for debate among ESS teachers, another important question that is not tackled in this paper. It is true that it does not conflict with the multidisciplinary approach and the concept of economics as a social and political science that are the teachers' rallying cries. In any case, teachers enjoy a good deal of latitude when it comes to deciding how to translate the syllabuses into lessons, so that they are not necessarily very constrained by them, provided that the principles to which they subscribe are protected and they still have opportunities to deploy the active teaching methods to which they remain attached.

### **The actual curriculum: the twofold influence exerted by teachers**

Our aim in this final section is to characterise the teaching of economics that actually takes place in French *lycées*. To this end, we investigated what happens when the topic entitled 'Markets and prices' is taught in the *classe de première*.

All the analyses presented below are based on two successive research exercises that looked at the teaching of the 'markets and prices' topic in the syllabus for

the *classe de première*<sup>28</sup>. These two notions were selected because they are fundamental to any attempt to acquire the rudiments of economics. The aim of the first exercise was to characterise the contents of different lessons devoted to this topic. A dozen classes were observed, covering the whole of the prescribed course for this topic<sup>29</sup>. We gathered together copies of the teachers' lesson notes, the exercise books of a number of pupils, the transcripts of the lessons dealing with this topic (including pupils' contributions) and the documents used as teaching aids. These materials were supplemented by an interview with the teacher, focusing on his way of teaching this part of the programme (his choices, difficulties, successes, etc.). In the second exercise, the investigation was continued by observing 24 teachers at a time when the programme was undergoing change. This time, the investigation centred not on lesson content but on the active teaching methods deployed. The same types of materials were collected the following year. Our characterisation of the knowledge dispensed during the lessons draws primarily on the first research exercise. However, the interpretations of the teachers' behaviour as they translated the programmes into actual teaching practices are based on all the material gathered.

### *From the formal to the actual curriculum: in search of coherence and meaning for the pupils*

French teachers have national syllabuses for each subject, which they have to follow. Nevertheless, these syllabuses are not documents to be applied without further intervention or reflection. There are explanatory notes, textbooks available to pupils and teaching practices specific to each discipline. The standard exercises are based on the form taken by the *baccalauréat* examinations, which in this case involve analysis by candidates of a set of documents that always include statistical data. Thus, the teachers' task is to translate the syllabuses, within a context defined by government regulations, the availability of material and human resources and the practices of a professional community. This is the day-to-day aspect of their professional lives as teachers. In exercising their profession, they are driven by the principle of pedagogic freedom and responsibility. Finally, they are constrained by their pupils, in whom they have to instil knowledge and understanding of the prescribed syllabus.

The 1988 syllabus, which was still in force during the first research exercise, gave rather contradictory

27 As multiple public interventions in internal debate among teachers of some of them shows. See for instance the website [www.eloge-des-ses.fr](http://www.eloge-des-ses.fr).

28 The research exercises were carried out at the INRP between 1992 and 1994 and between 1995 and 1996 (Chatel et al. 1995; Chatel et al. 2000).

29 The time devoted to the topic varies considerably from class to class. The average is around 10 hours of lesson time.



indications as to what should be taught. The topic entitled ‘Exchanges: markets, price formation, role of foreign countries’ was included in the second part of the syllabus, which was entitled ‘Economic structures and mechanisms’ (see above). This wording suggests a fairly general examination of exchanges within the French economy, a fairly descriptive approach to price formation and exchanges. However, the supplementary notes to the syllabus referred to the presentation of ‘theoretical mechanisms’ and stipulated that a connection be established with firms’ strategies. This opened up a vast area of enquiry. Examination of the textbooks and the lessons shows that virtually everything that could be taught was taught in one class or another.

It was no easy task to interpret the vast amount of material gathered because during the lessons, which were described as ‘dialogues’, the pupils were encouraged to speak and their voices became intermingled with the teacher’s. Moreover, these exchanges are mixed up with references to documents the pupils had been working on prior to the lessons. We approached the task in two complementary ways. First, we identified the vocabulary that was being systematically explained and which the pupils were required to learn. Second, we read the lesson transcripts in the order in which they had been gathered. In analysing them in this way, we were seeking to answer a number of questions. What was the main focus of the teaching time devoted to the topic? What issues were tackled successively during that time? Were connections made between these issues? If they were, what was the purpose of so doing? Our analysis of the transcripts, including the pupils’ interventions, showed that the lessons sometimes diverged from the main focus or guiding thread the teacher had planned and which was mentioned in both the preparatory lesson notes and the interview. It also appeared in the notes taken by the pupils, which turned out to be very similar from one pupil to another. Thus the divergences from the guiding thread that had been revealed by our analysis of the lesson transcripts were not evident in what the pupils wrote in their exercise books.

The vocabulary taught provides an initial indication of the range of interpretations offered in the teaching of this topic. In the analysis of the lesson transcripts, we noted that an extensive vocabulary of some 30 to 35 notions was used. This vocabulary is dominated by terms linked to the firm, i.e. to the supply side and to costs rather than to the demand side. Price emerged as a key variable in corporate strategies. Within this extensive vocabulary, there was a central core of key notions that were taught. Seventeen common notions were defined in 10 classes out of 12, while 25 common notions were defined in 5 classes or fewer. Examination of these notions confirms the importance attached to words relating to costs, supply and

competition, both perfect and imperfect. They reflect a concern on the part of teachers to respond to the stipulation in the syllabus that a link should be made with corporate strategies. However, these strategies were not the main focus of most of the lessons dealing with this topic.

Drawing on the categories used by academic economists, we attempted to discern the guiding thread of such and such a chapter or sequence of lessons on the topic.

The categories used to identify differences are academic categories, which lent an a priori structure to our analysis while at the same time also being categories formed by examining textbooks and observing lessons. The teachers, like the textbook authors, who are also teachers, approached this topic with conceptual frameworks in mind forged by the academic categories. An initial distinction concerns the level at which the principal object of investigation was to be located. Three different levels can be identified: the firm, the product market and the economy as a whole. For each of these three levels, a second distinction can be made depending on the extent to which the approach adopted was contextualised. For example, the firm can be studied in generic, abstract terms or, alternatively, from a very situated point of view. How does a firm react to competition? How does it form the price of its product? In the first case, the teaching would draw on the tools and line of argument used in microeconomics: marginal and average cost, construction of the supply curve. In the second case, it would draw on real or simulated case studies. The lesson content would amount almost to a textbook chapter on the firm. If the question is tackled in a more standard way, at the level of the product market, here too the approach may be generic and abstract or situated; the objects of investigation in this case would be the equilibrium between the supply of and demand for a product and the competition that determines a product’s price. Finally, the question of markets and prices can be approached in terms of the regulation of economic systems; in such an approach, market failures would become evident. Once again, this question can be tackled in an abstract way, as one of the three most frequently used textbooks does, or in a more contextualised way.

### The content of the 12 lessons by principal topic and context adopted

	Firm	Product market	Market economy	Total
Generic	1	1	2	4
Situated	3	/	5	8
Total	4	1	7	12

Source: *Marchés et prix*, INRP, 1995, p.104



As the table above shows, most of the lessons (7 out of 12) focused mainly on the quality of the overall regulation of the economy through the market. This reflects the dominant approach adopted in the textbooks. However, it was not strictly in line with the syllabus, which stipulated that pupils should study the way in which markets function and the way in which prices are formed in product markets. However, only 1 lesson of the 12 reflected this interpretation of the syllabus. In line with the explanatory notes on the syllabus, the approach based on corporate strategy in the market place accounted for a reasonable share of the teaching time, being the focus of 4 out of 12 lessons. It was probably fairly accessible for pupils. Nevertheless, the lessons based on this approach were still in the minority.

Moreover, the lessons were dominated by a 'situated', i.e. contextualised interpretation of the economic questions (8 lessons out of 12). This choice is consistent with what the teachers said about favouring 'active' teaching methods that take account of pupils' knowledge about the economic and social world. They were trying to focus their teaching on cases of 'real' markets that were already a part of their pupils' everyday experience: the market for toys, for oil etc. There were many examples in the textbooks and documents studied in class.

Finally, it should be noted that most of the teachers chose to adopt a macroeconomic approach in their lessons on the 'market', which they conceptualised as a general mode of economic regulation. In adopting such an approach, they were ensuring that their teaching on this point was in line with the guiding thread running through the syllabus for the year or two years (*première* and *terminale*, see above). The syllabus for the *classe de première* focuses essentially on macrosocial questions (social structures up to national level, economic structures, the economic and social role of the state), while that for the *classe terminale* focuses exclusively on that level in order to investigate change over the medium and long term. Consequently, teachers and textbook writers constructed an overall guiding thread located at this level, which the prescribed syllabus did not have. They found a theoretical underpinning for this interpretation in regulation theory<sup>30</sup>. This school of economic thought was well suited to this macrosocial approach to the market and to the critical approach to economics that most ESS teachers support. In particular, it enabled them to highlight the market failures that justify state intervention.

30 The regulation school is a heterodox approach to economics that draws on Keynesian and Marxist thinking and is best exemplified by the work of Robert Boyer and Michel Aglietta in France in the 1970s (Aglietta 1978; Boyer 1987).

### *Evolution of the programme: from the real curriculum to the formal curriculum*

Thus, the certain degree of diversity in interpretations of this topic can be explained by a certain vagueness in the drafting of the syllabus in force at the time of our first research exercise and by the fact that there are a number of academically valid ways of approaching the question. The authors of the textbooks and the teachers preparing and delivering their lessons constructed a variety of guiding threads for this series of lessons. In some cases, the lessons lacked overall coherence, since it is likely that not all the teachers involved had the same capacity to interpret the syllabus. The interviews we conducted with around 30 of them in the mid-1990s showed that the teachers varied somewhat in their desire to construct their own guiding threads by freeing themselves from the textbooks. Some said they found it difficult to incorporate such and such a topic into their teaching, while expressing a desire to give their lessons an overarching theme. For example, on the question of 'market mechanisms', some of them told us that these theoretical aspects, which belong to the sphere of microeconomics, seemed to them difficult to teach, as Paul D. said<sup>31</sup>: 'I don't feel comfortable giving this course. (...) What I would like is to develop something more coherent, more integrated that would fit better with the programme as a whole'.

The macro-social approach that is dominant in the textbooks and in the actual teaching has been taken up in the syllabuses drafted after 1993. The 'exchanges, market and prices' topic, for example, is specified in greater detail than previously in the section of the syllabus entitled 'Market economy and society'. This same macro-social perspective is also dominant in the 2001 syllabus, which reformulates the 1993 syllabus. The question of markets is tackled under the heading 'Coordination through the market' in a section entitled 'Economic and social regulation'. In this iteration of the syllabus, it is the term 'regulation' that links the economic and social dimensions. The authors of the 2001 syllabus add a supplementary note, in which they say that the fundamental question addressed in this section of the syllabus is: 'How is society possible?'. The syllabus offers some starting points for discussion structured around three different bonds or ties: the social bond, the economic bond and the political bond, study of which constitutes the three major sections of the syllabus. It is clearly assumed in the syllabus that the economy is socially embedded.

In the case under analysis here, the relationship between the real and prescribed curriculums is partially reversed, since the actual teaching came first in most of the courses observed, the content of which was to be prescribed subsequently. It is true that the

31 Lesson analysed in Chatelet 2001, p.217-224.



teachers were represented on the committees that rewrote the syllabuses. They brought their experience of devising lesson content to the work of these committees. Their professional association, APSES, had played a very active role with regard to the syllabuses (Jean and Rallet 2009) and their collective and political action had ensured that their teaching experience was taken into account. In this case, and perhaps to a greater extent than is generally thought, the teachers as a professional group had a certain degree of influence over the development of the syllabuses.

### **Conclusion**

The teaching of economics in French *lycées* takes two forms. In the technological stream, it is paired with law within a group of technological subjects; in the general education stream, it is paired with the other social sciences. In this latter case, economics is taught within a discipline that combines the various academic social science subjects to form the basis for examining topics such as the firm, work and employment, consumption, etc. The result is a radically different approach to the teaching of economics both from that of university economics courses and the other economics programme in French *lycées*. The combination of economics with the other social sciences gives this programme a perspective that brings it close to political economy. This gives a distinctive kind of unity to the various forms of knowledge that make up the school discipline, which was conceived from the outset as a critical and socially aware programme. This so-called 'cultural' purpose (Malinvaud 1989) is in keeping with the objective of a general education; the acquisition by pupils of a set of conceptual tools that will prepare them to undertake economic analyses in the strict sense is not the principle or sole objective of the programme. The aim of providing pupils with a critical education has given rise to a programme that draws on heterodox schools of economic thought and affirms the principle of theoretical pluralism. The multidisciplinary and integrative approach has led to a focus on the most current

economic and social problems, which seems to give the course meaning from the pupils' standpoint. This has enabled them to investigate the recent financial crisis, for example, in some depth and to give them the beginnings of an understanding of its economic effects.

The discipline's body of teachers has proved to be an essential link in the defence and maintenance of this approach, which has often been challenged. It has been able to exert its influence both through its usual teaching activities and by taking real political action out of a concern to defend certain values and concepts of what they teach. The strong attachment to a subject, teaching of which is shared within the entity described as a 'school discipline', has provided the basis for the teacher's involvement in defining the syllabus content, which has been spearheaded by the professional association, and has helped to establish the principle of teacher involvement. This involvement appears to be beneficial in the sense that it has facilitated implementation of the prescribed syllabus. In the course of our research, we observed, for example, the teachers' constant concern to keep the topics they were teaching accessible for their pupils by rooting them in their social experience. Nevertheless, this teacher involvement is not the only quality standard to be applied to a curriculum, because the teachers are not the only interested parties who have to contribute to the debate on the curriculum. Moreover, they do not have a complete overview of the effects of their teaching. It has been observed, for example, that ESS teachers have tended to introduce an excess of theory into their teaching as a result of their constant search for academic legitimacy. This tendency has also been observed in curriculum studies by British sociologists, including those by Goodson (1981) on geography and rural studies or by Cooper (1983) on mathematics. We need to be able to establish whether the increased theoretical requirements that appear in the prescribed syllabuses prove to be truly accessible and to what extent they are actually fulfilled by pupils.





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