"Economics must be exposed, challenged and invigorated through participation and public engagement..."

OPEN ECONOMICS

Daniel Leighton
Max Wind-Cowie

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Dan Leighton
Max Wind-Cowie
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1 Introduction

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.

JM Keynes[1]

This report makes the case for a more open and transparent economic decision making process in this country. The banking crisis and associated economic disaster obviously prompt soul-searching on the issues of economic expertise and political economics. But the truth is that a review of the settlement between economics and politics is long overdue. The reverence with which economists have been treated is inappropriate: economics is not a science; it is a field of contested and competing ideas and should be treated as such. As economic decisions have profound influences on everybody's lives, there should be greater public involvement and engagement in decision-making.

The report is divided into three main chapters.

Citizens, consumers and the economic crisis

Chapter 2 looks at how the economic crisis has changed the parameters of economic policy and in so doing repoliticised economic decision making, hitherto framed as neutral technocratic expertise. The banking crisis, public debt and spending cuts reveal the need for explicit political choices in economic policy and require a move from financial literacy, which frames people as individual consumers, to a broader form of economic literacy addressed to people as citizens making collective choices about economic life.

What do people know and feel about the economy?

Chapter 3 describes the primary research undertaken for this project, including extensive polling and workshops. The research highlights the growing gap between people's high levels of confidence over household finance and their limited willingness to engage with wider economic questions.

Recommendations

Chapter 4 lays out a series of recommendations that would begin to open the interface between economics and politics to the challenges of public participation by developing simpler, and more relevant, means of measuring and understanding economic success. A more holistic approach to measurement – based perhaps on the principles identified by the Stiglitz Commission for President Sarkozy – would be more appealing and engaging to the public and would represent a more comprehensive account of how economic productivity relates to personal and social well-being. By focusing on critical thinking and analysis in economics education, we can encourage children to view economics as contested and competing sets of ideas rather than established, neutral fact. In addition, economic decision-making institutions in the UK should have a 'duty of public engagement' imposed on them – they should involve the public in their decision making. Finally, the most pressing economic issues of the day – spending cuts and deficit reduction – should be used as pilot subjects for a more engaged economic debate. The model used by America*Speaks* whereby local people discuss pressing issues in town hall style meetings should be adopted in order to gain an understanding of the public's views and facilitate public discourse on economic questions.

This report explores the paradoxes and complications of attempting to engage the public in economic decision making. It is not complete; further work will need to be carried out to ensure that economic elites are sufficiently held to account. But all of the findings and recommendations contained within this report are realistic moves towards a more open economic life in this country. Although they might not entirely prevent a repeat of the economic crisis, they would help to wear down the group-think that has allowed experts to treat economics as a neutral science rather than the field of philosophical debate that it truly is. This would generate a healthier level of economic understanding and debate in the UK and allow ordinary people to become engaged in economic questions: to become informed economic actors.

2 Citizens, consumers and the economic crisis

The recession has put economics at the top of the agenda for the government and the people. Britain is still in the midst of one of the worst financial crises in recent memory. In 2009 unemployment reached over 2.46 million[2] people (an all-time high[3]); government debt stood at £950.4 million; and the deficit reached a record level of almost £159.2 billion, described as an 'unprecedented' deterioration in the public finances.[4] The Organisation for Economic Cooperation and Development (OECD) predicted that Britain would be the last of the leading economies to recover from recession.[5]

We live in economically uncertain times. The banking collapse preceded unprecedented public spending that, in turn, has led to a huge public debt and an agenda of government austerity and spending cuts. Although the narrative of what has happened is, largely, accepted, the solutions are not. The general election was caricatured by fierce debate over what needs to be done: spending cuts or continued investment; higher National Insurance payments or higher VAT; paying down debt or worrying about it later. Economic questions were central to the political debate but they were also highly contested. These debates brought home the paradox of economic expertise and knowledge: economics is not a science that can be learned, it is a series of philosophies that make differing assumptions about behaviour and come to different conclusions about how the state and the market work.

Economists have a role to play in policy making. Experts from all areas have a role in contextualising and advising on policy areas that they have a bearing on and it is right that they do so. But the role that economists and economics play in policy making has become inflated and unaccountable: economic knowledge is no longer used in a way that reflects the reality of its usefulness or recognises the rights of the wider citizenry to engage in decision making in this key area of public life. Economists now make active decisions over political issues – such as interest rates – by virtue of their expertise and free from the influence or 'meddling' of elected politicians. Economic experts such as Robert Chote and the Office for Budget Responsibility are given a free reign to devise and publicise forecasts and estimates that guide government policy and perception of that policy – presenting the possible as definite and their assumptions as certainties. This is a problematic situation in its own right, because economics is not definite, is not certain and does not limit itself to the pursuit of neutral fact. In light of the horrendous consequences of macro-economic and regulatory policy over the past decade the situation is even more untenable. Economic experts have reminded us of their inability to predict the future and of the fallibility of their underlying assumptions. We are reminded that no one school of economic thought has a monopoly over truth and that it is unhelpful to assume that expertise insulates people from error.

The massive impact of seemingly unwitting people taking out loans they couldn't afford and being sold credit that was inappropriate has led – rather inevitably – to a wholesale focus on helping people to avoid repeating these sorts of mistakes in the future. Here, we have seen redoubled efforts to increase financial literacy and capabilities among consumers, aimed at equipping individuals as purchasers. This is not to be dismissed: financial capability is important, but it ignores the wider issues at stake.

The economic crisis has led to real economic questions being asked and debated in the public sphere; however, it is not clear how much real influence the public have over these questions. Being presented with a range of economic policies by politicians is one thing, but the public also needs to be invited into decision making as it happens. Those in the economics profession must acknowledge that they are implicated by the crisis, that they disagree with one another and that economics has profound political implications. It is no longer tenable to pretend that economics is simply a technocratic function of expertise: it is concerned with philosophical and political questions, and it is therefore necessary to give the public a real role in evaluating competing claims and challenging assumptions.

Rather, we need to think more particularly about how we address the need not just for more competent and informed consumers, but also for proper democratic engagement and representation in debates around the economy. To that end, financial literacy and capability is only one part of a much broader set of reforms that are required if we are to wrench control of economic policy making away from a closed cadre of experts.

This report outlines why and how government should engage citizens in the economic life of the nation. It aims to provoke debate about what we mean by economic literacy and economic participation, why we value the role of the citizen and why it is not acceptable to outsource the fundamentally important debate on economics to an insular elite of experts.

The repoliticisation of the economy

The behaviour of the banks and government has and will continue to generate much discussion. Yet the behaviour of citizens, when it is addressed, is viewed almost entirely through the lens of financial capability and financial literacy. The unremitting focus on savvy consumers is in danger of crowding out a broader need for citizens to understand the economic processes which, through democratic engagement, they are expected to make decisions on. Of course, decisions by individual consumers – on the sustainability of personal debt or when to withdraw savings for example – contributed to the crisis. And one could argue that this behaviour illustrates a high degree of financial illiteracy among the public. As the economist Robert Shiller, who advocated a ‘stimulus for financial advice’, puts it:

In evaluating the causes of the financial crisis, don’t forget the countless fundamental mistakes made by millions of people who were caught up in the excitement of the real estate bubble, taking on debt they could ill afford.[6]

In this way the narrative of the crash is that 'we are all implicated', be it through bankers' greed, politicians' regulatory laxity in favour of high tax yields or consumers' desire to spend now and pay later. While there is clearly a degree of truth in this analysis, it does little to explain the underlying power relationships or historical context that has led to this state of affairs. Notably, it fails to question the role of everyday people as citizens rather than consumers, as individuals who are called on to make judgements about economic decisions in the wider public interest rather than simply about their personal finances. Indeed, for the past three decades economic questions have been systematically 'depoliticised' through the tendency to displace decisions from the political arena into the hands of 'neutral' experts in technocratic and economic management.

The economic crisis has repoliticised economic decision making and raised questions about the power relationships between the financial services industry and government. Yet it should also repoliticise the relationship between citizens and the economy in relation to both the private and the public sector.

Colin Hay argues that politics should be understood as 'the capacity for agency and deliberation in situations of genuine collective or social choice'.[7] This expansive definition claims that politics occurs anywhere or over any issue that is not determined by fate or necessity, or only concerns an individual. Hay argues that issues can be politicised, with increasing intensity, if they are promoted from the realm of necessity to the private sphere, from the private to the public sphere, and from the public sphere to the government sphere. Depoliticisation 'operates in analogous fashion – only in reverse'.

Hay maintains there has been a net tendency towards depoliticisation over the past 30 years, which has created disdain for politicians and disbelief in the effectiveness of formal political institutions. This includes the displacement of governance responsibility from the formal governmental sphere to quasi-independent bodies such as independent central banks in the public sphere; the replacement of formal governance outright with that by the market, as seen in the wave of privatisations that occurred in the 1980s; and the shifting of responsibility for key areas of policy, such as welfare or the environment, away from the state towards the non-governmental public sphere and the individual.

From a normative perspective, the depoliticisation of economic policy removes it from the space of democratic contestation, presenting it as a form of necessity or fate that must be adapted to rather than shaped. From a substantive perspective this removal of contestation has resulted in poor policy and regulation based on the 'over-simplified and over-confident' conventional wisdom of professional economists, or to put it more accurately, a certain type of economist.

The crash has effectively repoliticised the governance of the economy. It has raised questions about demand management, industrial policy and regulation that were best left to the market, and questions of collective deliberation in the public interest.

Taking the perspective of a citizen over economic matters differs from that of taking the perspective of a consumer. It therefore requires a form of 'literacy' or 'capability' that is distinct from that informing financial literacy as presently defined. Where the latter seeks to maximise individual financial well-being, the former seeks to make trade-offs about the impact of economic decisions, particularly those made by public bodies, in the wider public interest.

The argument here is not simply that this is normatively desirable from a democratic perspective but that this is the role citizens are being called on to make. The economic crisis has made new demands on citizens in relation to economic policy, be it judging the rival claims on the consequences of cutting public spending, banking reform or politicians' calls to 'have our say' on what to cut.

In the longer term citizens are forced to confront the sustainability of the existing model of economic growth. This poses the ultimately political question of asking what society they want to live in, requiring deliberation on the extent to which economic life must be constrained by a publicly agreed conception of the good life.[8]

This type of question is difficult to pose within the 'market fundamentalist' framework of recent decades, which assumes both that the economy is a separate domain with 'natural laws' of supply and demand, and that the unimpeded operation of these laws enables people to satisfy their diverse wants and goals more effectively than any other form of social organisation. This can generate a 'Pangloss' attitude that, but for distortions and imperfections created by government interference, markets will ensure we will always live in the best possible world.

Doreen Massey argues that this separation:

has been one of the fundamental achievements of the last thirty years – the period we have come to call neoliberal. The economic has come to be viewed as a set of forces equivalent to a machine, or to the laws of nature. Its construction through social relations, and thus through potentially different social relations, has been hidden from view.[9]

The pseudo-scientific objectivity with which certain economists present their views has had the effect of creating a misleading separation between politics and economics, or more accurately using ostensibly neutral economic criteria, such as efficiency, to set constraints on political choices. While so-called 'mainstream' economists always had their critics within and without the economics profession, their direct role in the economic crisis has sparked a wholesale assault on the credibility of the discipline.

Rethinking economic expertise

Economists are charged not just with sins of omission in failing to predict the crisis but sins of commission in supplying the models and theories that framed the thinking of policy makers, regulators and businesses that fuelled the crisis.[10] As Adair Turner has argued, 'bad economics – or rather over-simplistic and over-confident economics – helped create the crisis'.[11] While he acknowledges there are many strains of economics, 'in the translation of ideas into ideology, and ideology into policy and business practice, it was one oversimplified strain which dominated in the pre-crisis years'.[12] This simplified strand is a variant of 'neo-classical' economics that has been the dominant, but by no means exclusive, focus of the discipline since the second world war.[13]

Yet this crisis of economics also provides an opportunity to reconsider and reconfigure the way in which politicians, officials and citizens relate to economic expertise. This relationship remains, despite the crisis, extremely problematic for both democracy and the stability and sustainability of the economy. From Margaret Thatcher's council of 'wise men', to Gordon Brown's creation of the Monetary Policy Committee of the Bank of England, to George Osborne's Office for Budget Responsibility, professional economists are deployed to present the objective reality according to which social and fiscal policy must be shaped. Economic experts are revered figures, a sort of secular priesthood with unique scientific insight on how best to order society.

Recall Hay's expansive definition of 'politics' as 'the capacity for agency and deliberation in situations of genuine collective or social choice'.[14] Politics, so defined, occurs anywhere or over any issue that is not determined by fate or necessity, or only concerns an individual. The depoliticisation of economic decision making that has occurred in recent decades is premised on the notion that the economy is a self-regulating system.

The central contention of this chapter is that economic expertise needs to be subjected to the more open and inclusive processes that are increasingly applied to the use of scientific experts in the determination of public policy and regulation of potential risks concerning scientific innovation.[15]

The authority of 'natural' scientists has been increasingly challenged in recent years.[16] From the bovine spongiform encephalopathy (BSE) crisis and fear of GM foods to the controversy over the measles, mumps and rubella (MMR) vaccine and autism, scientific expertise has become increasingly politicised. As a consequence, new, more open and contingent notions of scientific expertise, and public engagement in science, are beginning to emerge. Hubris about the powers of scientific reason and control of nature are gradually giving way to greater humility and acknowledgement of uncertainty.[17] If these problems bedevil the hard sciences, they are even more prevalent and intense in the social sciences, which supply much of the evidence for evidence-based policy.

It is tempting to argue that the credit crunch is the economic profession's equivalent of BSE or even Chernobyl. Indeed, Andrew Haldane, Bank of England, has toyed with this analogy when he argued that the regulatory regime, underpinned by conventional economic wisdom, failed to prevent the systemic risk of over-leveraged banks from 'polluting' innocent bystanders.[18]

Certainly part of public scepticism of scientific experts, or the use of scientific experts by politicians, is their failure to predict, or tendency to downplay, the environmental or health risks from technological innovation. The complex forms of financial innovation that were the proximate cause of the crisis were ultimately premised on models propagated by economists – notably the efficient markets hypothesis and rational expectations theory.

The comparison between the use of science and economics in public policy does not end with actual and perceived failures to manage risk. Rather, they are both specific instances of a more generic problem concerning the role of expert knowledge in democracies. What follows sets out some of the main criticisms of mainstream economics and the way in which expertise based on it has been treated by policy makers. Possible lessons from the democratisation of science are then considered.

The problem with mainstream economics

In a meeting with leading economists in 2009 on the economic crisis, the Queen asked what many of her economically challenged subjects may have also been thinking: why could nobody foresee this? The response from one economist was telling: 'I think the main answer is that people were doing what they were paid to do, and behaved according to their incentives, but in many cases they were being paid to do the wrong things from society's perspective.'[19]

At first sight this doesn't seem to answer the question – the Queen asked not why the crisis was caused but why so few economic experts could predict it. Yet the answer could also be read as saying people acted as standard economic theory says they should and this has, surprisingly, transpired to produce a poor outcome for society as a whole.

That the pursuit of self-interest will not always lead to socially beneficial outcomes may not come as a surprise to those unversed in neo-classical economics. But for Alan Greenspan, the longest running chair of the US Federal Reserve and leading advocate of financial deregulation, it came as something of a revelation. In a now famous mea culpa to the US House Committee on Oversight and Government Reform in October 2008, he confessed:

Those of us who have looked to the self-interest of lending institutions to protect shareholders equity (myself especially) are in a state of shocked disbelief... I found a flaw in the model that I perceived is the critical functioning structure that defines how the world works.[20]

Crudely put, the 'critical functioning structure', was the process by which markets create equilibrium between supply and demand, working like an 'invisible hand' to ensure that the rational pursuit of self-interest results in the most efficient and socially beneficial allocation of resources. It requires several leaps in complexity to get from the idea of market equilibrium to the flawed risk models that were the proximate cause of the credit crunch.

Where Adam Smith used the notion of an invisible hand as a metaphor, the dominant strain of academic economics in the postwar period used complex mathematics to 'prove' that unfettered markets can and do reach an optimal state of equilibrium. This was always premised on certain conditions about the motivation and rationality of human beings, the information available to them and the nature of markets, which rarely if ever obtain in reality. *Homo economicus* is a person who always acts rationally on complete knowledge out of self-interest and the desire for wealth. Neo-classical economists, from Leon Walras and Stanley Jevons to Paul Samuelson and Milton Friedman, were well aware that these were simplifying assumptions but they used them to create predictive models about the way markets work.

Many economists would baulk at the claim that they subscribe to any of the above assumptions in such a crude form – that markets are perfectly stable, investors perfectly rational, markets fair or that everyone has the same access to information. Indeed Nobel prizes have been awarded to those such as Stiglitz[21] and Kahneman,[22] who showed how information asymmetries and 'irrational' behaviour regularly prevent markets from reaching equilibrium. At the same time it was the 'oversimplified and overconfident' neo-classical models that continued to inform policy and business practice. Joseph Stiglitz argues that 'the efficient market hypothesis – the notion that market prices revealed all relevant information – ruled the day'.[23] These 'models gave comfort to regulators that markets could be self regulated; they were efficient'. And Orrell asserts that if you 'peer under the hood of the risk models used by banks, or the models used to allocate funds or determine government policy, you'll find the same assumptions albeit with specific modifications'. This chimes with the view of George Soros in his analysis of the crisis:

It is important to realize that the crisis in which we find ourselves is not just a market failure but also a regulatory failure, and even more importantly, a failure of the prevailing dogma about financial markets. I have in mind the Efficient Market Hypothesis and Rational Expectation Theory. These economic theories guided, or more exactly misguided, both the regulators and the financial engineers who designed the derivatives and other synthetic financial instruments and quantitative risk management systems which have played such an important part in the collapse.[24]

Again it is important to emphasise that as an academic discipline, economics is not and never has been entirely monolithic and dominated by utilitarian assumptions or neo-classical obsessions with equilibrium. Keynes' views that financial markets are driven more by 'animal spirits' than sober rationality are an obvious rejoinder to such a notion. However, the 'centre of gravity' has been towards the neo-classical tendency and this has certainly been the strain of economics that has had the most influence on policy makers.

The fault lines within the discipline were again highlighted in a spat that broke out in reaction to a formal letter to the Queen, attempting to answer her question on the failure of the profession to predict the crisis. The authors, Tim Besley and Peter Hennessy, claimed this was ultimately the result of 'a collective failure of the imagination of many bright people, both in this country and internationally, to understand the risks (of financial innovation) to the system as a whole'.[25] In response, the American economist Thomas Palley argued the thrust of the letter was 'tendentious and misleading'.[26] Palley contended that the crisis was both predictable and predicted, but warnings were ignored or dismissed as they contravened the 'dominant ideological construction of economics'. Therefore, the failure was 'due to the sociology of the economics profession'[27] and the letter was:

> *Another example of the economics profession's complete inability to come to grips with its sociological failure which produced massive intellectual failure with huge costs for society. This is a very serious social problem and we will all continue to pay the costs as long as it is unaddressed.*[28]

This failure has given renewed resonance to claims long made by certain economists and critics from without the discipline: the reductionist and socially abstract model of human behaviour underpinning 'homo economicus';[29] obsession with mathematical formalism over empirical investigation;[30] the weak predictive power of conventional economic models;[31] and the inextricable entanglement of facts and values, despite the claim to maintain a strict separation between the two and concomitant accusations of ideological bias.[32]

Economics has long gained its prestige and credibility from its association with 'hard sciences like physics and mathematics'.[33] Unlike, say sociology or politics, economics is based on rigorous 'scientific' methodology that separates 'positive' economic claims about how the world works from 'normative' judgements about how it should be.

As Lawrence Summers, a current economic adviser to Obama and former Treasury Secretary under Bill Clinton, famously put it in the early 1990s, 'spread the truth – the laws of economics are like the laws of engineering. One set of laws works everywhere.'[34] In their claim to emulate the universal laws of physics, economists have gained considerable authority for their pronouncements. Yet according to the economic historian Mark Blaug, they 'have gradually converted the subject into a sort of social mathematics in which analytical rigour as understood in maths departments is everything and empirical relevance (as understood in physics departments) is nothing'.[35] Skewering his fellow economists' worst tendencies he declares: 'no reality please, we're economists!'

How can one square the way in which economists view themselves, and the reverence with which policy makers view them, with these allegations of their detachment from reality? Robert Nelson provides an intriguing suggestion: neo-classical economics is a form of secular theology, through which economists preach the gospel according to efficiency. He suggests, with particular reference to the US, that in the post-war period economists have played the role of priests, defining the good and bad behaviour that makes salvation possible:

The role of economists as the pre-eminent profession among the social sciences is justified by economists' possession of the key scientific knowledge required to bring about a modern heaven on earth... If the conclusions of [their] economic 'science' depended on a host of matters of faith, the invocation of scientific authority served effectively to give these particular faith claims a special place in the American halls of power.[36]

Nelson quotes the economist Charles Schultze, who argues, 'economists serving in government should not be value free... but should serve as "partisans for efficiency"' [37]

The economist Duncan Foley makes a related point, in that great political economists at once attempt to explain economic phenomena and how we should feel about them. He argues that attempts to separate these levels of analysis into 'positive' (objectively valid findings of economic analysis) and 'normative' (explicit value judgements and goals) economics is 'futile'. This might be overstretching the point. However, while it may be possible to maintain this separation in the academy,[38] whenever economics is applied to produce practical policy the normative and the positive become inextricably intertwined. While most economists would accept this, 'they try to minimise ethical controversy in applied analysis by assuming the only goal that matters is improved welfare which is defined by market expressed preferences'.[39] Yet this becomes problematic when

constructing efficient solutions in a market context comes to be seen by policy makers as providing practical blueprints on what ought to be done – without any serious attempt to define the range of appropriate social goals to be taken into account.[40]

The pre-eminent role of economics in framing public policy and the conflation of social objectives to technical questions of efficiency has lead Yves Smith to argue:

Economists have come to hold a position that is dangerous in a democracy. Their use of science-like procedures gives them authority that is often unwarranted. Even though they like to cast themselves as benign umpires they wield far more influence.[41]

The politics of expertise

The charge that the objective status accorded to economic knowledge renders policy based on it impervious to democratic contestation has some force to it. Yet it ultimately raises a more generic problem concerning the relation between experts, policy makers and the public in complex democratic societies. As the sociologist Stephen Turner puts it:

Experts are treated as having access to knowledge that bestow upon them power which can seem uncontrollable and unattainable by other individuals. This different status between the opinion of laymen and experts assumes that the unspecialized public is incapable of participating in the decision-making process, undermining the basic principle of political equality.[42]

Expertise has come to infiltrate every part of government. It has been claimed that 'much of the history of social progress in the twentieth century can be described in terms of public policy from politics to expertise'.[43] Not only are policy advisory committees prevalent in providing economic advice, we also see experts offering their advice on science, culture, social policy, economics; the list goes on. Indeed, scientists are integral to government work, being labelled the 'fifth branch'[44] – and the proliferation of bodies such as the Health Protection Agency, the Food Standards Agency and the National Institute for Health and Clinical Excellence all work towards feeding the growing need for evidence-based policy. Advisers in these organisations tell the government what to think, providing ministers with what they consider the appropriate technical response on a whole host of issues. We cannot understand nor comprehend everything they tell us, so the overwhelming response has been one of blind trust.

To claim that economic expertise is shot through with value judgements and uncertainty is not to suggest that it is somehow worse than other forms of knowledge informing public policy, but simply to claim that it is no different from other forms of knowledge about the social and natural world. Problems concerning objectivity, certainty and relevance are endemic in any application of expert knowledge to questions of public policy.

The sociologist Stephen Turner distinguishes between well-structured and ill-structured problems. The former are those in which there is a single best solution, whereas the latter are those in which there are multiple possible solutions.[45] Whereas the former is amenable to a conventional model of scientific neutral expertise, with the latter there is no one 'scientifically preferred solution or decision determining facts'. He rightly argues in the case of policy decisions of any degree of complexity, 'ill-formedness is the norm'. When problems are ill-structured:

No form of expertise is sufficient to determine the single optimal solution because there are no single optimal solutions; rather there are solutions that satisfy different desiderata, such as the desiderata that define optimality in different professional domains.[46]

If most scientific experts are dealing with ill-structured problems, then economic experts are doing so to an even greater degree, given the higher levels of social complexity involved in economic policy. The phenomenon of economic imperialism existing in the guise of rational and public choice theory, in which the model of rational self-interested actors in markets is applied to a non-market behavioural setting, has meant the 'desiderata' of those in the economics profession are regularly extended outside their domain. Yet it is striking that although the claims of economists have been depoliticised in recent decades, the claims of scientific experts have been increasingly politicised.

These developments, detailed above and which reframe the 'who, how and what' of scientific expertise, could be instructive in creating a more open and engaged relationship between politicians, economic experts and the public.

The Phillips Inquiry into BSE marked a watershed moment. Public trust in experts and therefore government policy could no longer be taken for granted, and the existence of scientific uncertainty could no longer be hidden where the public interest was concerned. The inquiry recommended greater openness in order to regenerate trust from the public for the experts who advised the government. But fundamentally, it was also recognised that the public should be trusted to act rationally to openness: that scientific investigation of risk should be open and transparent, and that the advice and reasoning of advisory committees should be made public.[47]

The MMR saga also taught policy makers a lesson. It showed them that getting the right answer was not just about having the right information. It was about more than knowledge: it was about 'credibility, uncertainty and the space that had been allocated for public debate... As ordinary people asked difficult questions, features of this debate that had previously been cordoned off as scientific were revealed as vitally political.'[48] Experts were being called on to 'move on from paternalism, in which the public are assumed to be passive, to a relationship of interested partnership'.[49]

This has in turn led to the role of lay members becoming increasingly important. The term 'lay member' has been in use for a long time to describe tribunal members without a legal qualification, or sometimes those without a medical or other easily definable professional qualification – in other words, not experts. However, studies reveal that the term lay member means more than this to many people, who believe lay members bring something different to the table.[50] They are seen to increase the legitimacy of expert advice, and to provide better advice. They are increasingly seen as the link between the public and experts, able to make complicated technical reports more accessible for ordinary members of the public, and to draw experts in to relevant public debates, which may have wider implications for the issue being discussed. They are also seen as a means of ensuring that the other members on the committee are accountable and acting in an appropriate manner. There is a move to include those who are somewhere in between 'lay' and expert; for example, the Advisory Committee on Releases to the Environment (ACRE) includes two farmers. They are there to 'challenge' the experts, bringing back their expert advice to the real world, or helping them to situate their advice in a policy context.[51]

The position of lay members is at an important and evolving stage. If they are involved in a move towards a more open approach to advice (see below) then they can make a substantial difference:

There is a far greater potential for lay members if they are situated within a culture of expertise based not on the black and white of scientific absolutes, but on offering a comprehensive range of advice.[52]

They could be pivotal in

opening up the inputs of expertise, broadening the questions that get asked and the voices that get heard. However, to build better advice, we need to open up the outputs of expertise, expecting judgment, uncertainty and context as well as advice.[53]

Partly on the basis of these developments, Jack Stilgoe and others have distinguished between a conventional model of 'absolute advice' and an emerging notion of 'contingent advice'.[54] They stress these are ideal types and that rather than adhere entirely to one model, advisory committees will instead often lean more towards one than the other. The old model of expertise can be described as being closed off from the social context and other bodies, making it isolated. It is also seen as homogenous, hubristic and demanding of public trust. Furthermore, it requires consensus on expert opinion, prescription and managerial control.

The new model of expertise contrasts to this greatly, making a clear break from the past. While still in development, it is seen as open, diverse and humble. It turns around the previous expectation of demanding trust from the public for experts, and instead relies on experts putting their trust in the public. Advice will be plural and conditional, and control of the process will be distributed.[55] The new model is based on a developing social contract between experts and society, and is a result of discussions between individuals, cultures and institutions.

The notion of 'contingent advice' dovetails with what Sheila Jasonoff has called a regime of 'humility'.[56] This would supplement or replace the hubristic approach of predictive analysis with one 'that makes apparent the possibility of unforeseen consequences, makes explicit the normative in the technical and acknowledges from the start the need for plural viewpoints and collective learning'.[57]

3 What do people know and feel about the economy?

Our primary research aimed to get a sense of how people understand and feel about economic and financial issues through a mix of qualitative and quantitative research. In late 2009 we polled 1,000 people over the age of 15, aggregated by socio-economic status; we interrogated them about their level of financial and economic literacy.

We also held a half-day workshop with 12 participants in March 2010 to provide qualitative data, discuss economic and financial knowledge, and test attitudes towards macro-economic issues. We explored the latter with a particular focus on levels of awareness about the UK's public deficit and responses to two opposing economic strategies for addressing the UK budget deficit. Our aim was not just to test levels of knowledge but also to gain insight into how participants would cope with having to make a judgement about policy in the face of rival claims about the most suitable solution. Participants came from income groups of classification C2 and D, aged between 19 and 62, with five women and seven men. Whereas the polling covered a wider range of income groups, the workshops were focused on those who are likely to struggle most with financial capability, having access to credit cards but a relatively low income.

Although participants were reasonably confident about key aspects of financial capability, as might be expected, they expressed levels of confusion and a pervasive sense of powerlessness when it came to wider economic questions. The majority, though not all, felt that the government was to blame for the economic crisis and the deficit, but had very little faith in the ability of politicians – regardless of party – to handle the recovery.

Financial capability and confidence

We explored levels of confidence in financial capability and understanding by asking participants the extent to which they agreed with three statements covering management of personal budgets, charges for loans and credit, investment decisions and pensions (see findings below). After this section we discuss associated findings from the workshops.

Costs charged on loans and credit cards

We asked participants whether they understood how the different financial costs charged on loans and credit cards are calculated (tables 1 and 3).

Table 1 **Participants' responses to statement 'I understand how the different financial costs charged on my loans and credit cards are calculated'**

Strongly agree	15%
Tend to agree	29%
Neither agree nor disagree	14%
Tend to disagree	12%
Strongly disagree	14%
Don't know	6%
Not applicable	9%
Agree	44%
Disagree	27%

The responses were surprising, because the calculation of interest on loans and credit cards is very complicated and likely to be impenetrable to many non-experts. It could be revealing that a low proportion (14 per cent who replied 'strongly disagree') felt that they understood the calculation of interest rates on credit and loans in broad outline, but did not understand it in detail (hence also the low proportion – 15 per cent – who replied 'strongly agree').

Social demographic analysis of participants' responses show there is a typical pattern in which lower occupational groups and low-income groups tend to have less financial knowledge and confidence. It is particularly notable that participants from lower occupational groups were much more likely than those from higher occupational groups to answer 'don't know'; this could reflect a lack of confidence in financial understanding.

Confidence in making the right decisions about investments

We asked participants whether they were confident they could make the right decisions about where to invest their savings (tables 2 and 4).

Table 2 **Participants' responses to statement 'I am confident that I can make the right decisions about where to invest my savings'**

Strongly agree	22%
Tend to agree	41%
Neither agree nor disagree	15%
Tend to disagree	10%
Strongly disagree	7%
Don't know	2%
Not applicable	3%
Agree	63%
Disagree	17%

The statement on this subject prompted one of the most positive affirmations of people having confidence in their financial capability (63 per cent agreeing with the statement). However, a third of people lacked confidence that they know where best to invest their savings; 17 per cent disagreed with the statement; and 15 per cent neither agreed nor disagreed.

Table 3

Participants' responses to statement 'I understand how the different financial costs charged on my loans and credit cards are calculated', broken down by sex, age, social grade and marital status

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
Strongly agree	149 (15%)	96 (20%)	53 (10%)
Tend to agree	295 (29%)	134 (27%)	160 (31%)
Neither agree nor disagree	145 (14%)	77 (16%)	68 (13%)
Tend to disagree	125 (12%)	63 (13%)	62 (12%)
Strongly disagree	145 (14%)	60 (12%)	85 (16%)
Agree (net)	444 (44%)	230 (47%)	214 (41%)
Disagree (net)	269 (27%)	123 (25%)	146 (28%)
Not applicable	94 (9%)	38 (8%)	57 (11%)
Don't know	58 (6%)	21 (4%)	37 (7%)

	Total	Marital status		
		Mar / Living	Single	Wid / Div / Sep
Unweighted base	**1007**	**599**	**224**	**180**
Weighted base	**1010** (100%)	**617** (100%)	**227** (100%)	**162** (100%)
Strongly agree	149 (15%)	105 (17%)	25 (11%)	19 (11%)
Tend to agree	295 (29%)	199 (32%)	48 (21%)	48 (30%)
Neither agree nor disagree	145 (14%)	92 (15%)	32 (14%)	19 (12%)
Tend to disagree	125 (12%)	78 (13%)	31 (14%)	15 (9%)
Strongly disagree	145 (14%)	83 (13%)	44 (20%)	18 (11%)
Agree (net)	444 (44%)	304 (49%)	73 (32%)	66 (41%)
Disagree (net)	269 (27%)	161 (26%)	75 (33%)	33 (20%)
Not applicable	94 (9%)	36 (6%)	26 (12%)	32 (20%)
Don't know	58 (6%)	25 (4%)	20 (9%)	11 (7%)

Age					
15-24	25-34	35-44	45-54	55-64	65+
141	144	160	147	173	242
160 (100%)	158 (100%)	185 (100%)	163 (100%)	146 (100%)	199 (100%)
16 (10%)	24 (15%)	33 (18%)	35 (21%)	28 (19%)	14 (7%)
31 (19%)	59 (38%)	49 (26%)	58 (36%)	35 (24%)	62 (31%)
25 (16%)	19 (12%)	27 (15%)	29 (18%)	21 (14%)	24 (12%)
28 (17%)	19 (12%)	24 (13%)	15 (9%)	17 (12%)	21 (11%)
27 (17%)	22 (14%)	30 (16%)	17 (10%)	25 (17%)	23 (12%)
47 (29%)	84 (53%)	82 (44%)	93 (57%)	63 (43%)	76 (38%)
55 (34%)	41 (26%)	54 (29%)	32 (20%)	42 (29%)	45 (22%)
18 (11%)	6 (4%)	10 (5%)	6 (4%)	13 (9%)	42 (21%)
15 (10%)	7 (5%)	12 (7%)	3 (2%)	7 (5%)	12 (6%)

Social grade					
AB	C1	C2	DE	ABC1	C2DE
178	318	215	296	496	511
269 (100%)	289 (100%)	213 (100%)	239 (100%)	559 (100%)	452 (100%)
61 (23%)	43 (15%)	30 (14%)	15 (6%)	104 (19%)	45 (10%)
90 (34%)	98 (34%)	59 (28%)	47 (20%)	189 (34%)	106 (23%)
35 (13%)	45 (15%)	30 (14%)	36 (15%)	79 (14%)	66 (15%)
31 (12%)	38 (13%)	27 (13%)	29 (12%)	70 (12%)	55 (12%)
30 (11%)	37 (13%)	31 (14%)	47 (20%)	67 (12%)	78 (17%)
152 (56%)	141 (49%)	89 (42%)	62 (26%)	293 (52%)	151 (33%)
62 (23%)	75 (38%)	57 (27%)	76 (32%)	136 (24%)	133 (29%)
18 (7%)	21 (7%)	26 (12%)	29 (12%)	39 (7%)	56 (12%)
3 (1%)	8 (3%)	10 (5%)	36 (15%)	12 (2%)	46 (10%)

Table 4 **Participants' responses to statement 'I am confident that I can make the right decisions about where to invest my savings', broken down by sex, age and social grade**

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
Strongly agree	223 (22 %)	133 (27%)	90 (17%)
Tend to agree	414 (41%)	188 (38%)	226 (43%)
Neither agree nor disagree	155 (1 5%)	68 (14%)	86 (17%)
Tend to disagree	104 (1 0%)	44 (9%)	60 (11%)
Strongly disagree	67 (7%)	37 (8%)	30 (6%)
Agree (net)	637 (63%)	321 (66%)	316 (61%)
Disagree (net)	171 (17%)	81 (17%)	90 (17%)
Not applicable	27 (3%)	11 (2%)	16 (3%)
Don't know	21 (2%)	8 (2%)	13 (3%)

	Total
Unweighted base	**1007**
Weighted base	**1010** (100%)
Strongly agree	223 (22 %)
Tend to agree	414 (41%)
Neither agree nor disagree	155 (1 5%)
Tend to disagree	104 (1 0%)
Strongly disagree	67 (7%)
Agree (net)	637 (63%)
Disagree (net)	171 (17%)
Not applicable	27 (3%)
Don't know	21 (2%)

Age					
15-24	25-34	35-44	45-54	55-64	65+
141	**144**	**160**	**147**	**173**	**242**
160 (100%)	**158** (100%)	**185** (100%)	**163** (100%)	**146** (100%)	**199** (100%)
21 (13%)	40 (25%)	40 (21%)	34 (21%)	43 (29%)	45 (23%)
63 (40%)	60 (38%)	75 (41%)	82 (50%)	51 (35%)	83 (42%)
25 (16%)	22 (14%)	27 (15%)	28 (17%)	19 (13%)	34 (17%)
27 (17%)	16 (10%)	17 (9%)	13 (8%)	14 (10%)	16 (8%)
13 (8%)	15 (9%)	14 (8%)	4 (2%)	12 (8%)	9 (4%)
84 (53%)	100 (63%)	115 (62%)	116 (71%)	94 (64%)	128 (64%)
41 (26%)	31 (19%)	31 (17%)	17 (11%)	26 (18%)	25 (13%)
5 (3%)	2 (2%)	6 (3%)	2 (1%)	5 (3%)	7 (3%)
4 (3%)	3 (2%)	6 (3%)		3 (2%)	5 (3%)

Social grade					
AB	C1	C2	DE	ABC1	C2DE
178	**318**	**215**	**296**	**496**	**511**
269 (100%)	**289** (100%)	**213** (100%)	**239** (100%)	**559** (100%)	**452** (100%)
65 (24%)	72 (25%)	38 (18%)	49 (20%)	136 (24%)	86 (19%)
115 (43%)	119 (41%)	83 (39%)	96 (40%)	234 (42%)	180 (40%)
41 (15%)	40 (14%)	41 (19%)	34 (14%)	80 (14%)	74 (16%)
30 (11%)	34 (12%)	21 (10%)	18 (8%)	64 (11%)	40 (9%)
14 (5%)	17 (6%)	15 (7%)	21 (9%)	31 (6%)	36 (8%)
180 (67%)	191 (66%)	121 (57%)	145 (61%)	371 (66%)	266 (59%)
45 (17%)	50 (17%)	36 (17%)	39 (16%)	95 (17%)	76 (17%)
2 (1%)	6 (2%)	9 (4%)	10 (4%)	8 (1%)	18 (4%)
2 (1%)	2 (1%)	6 (3%)	11 (1%)	4 (1%)	17 (4%)

Middle-aged people were much more confident that they know where to invest their savings than younger people – perhaps because they are more likely to have savings to invest. This suggests that one's financial capability is related to one's personal circumstances. Even so, a disproportionately high number of those aged 55 years and older replied either 'disagree' or 'neither agree nor disagree', yet these groups tend to rely on returns from savings to a greater extent than younger people, who are more likely still to be in employment.

It is notable that there is not a clear disparity among occupational groups and income groups; for example, the majority of people in low-income groups still had confidence in their financial capability to decide where best to invest their savings.

Knowing enough about pensions to save appropriately

We asked participants whether they believed they knew enough about pensions to be sure they would save in an appropriate pension plan, if they chose to (tables 5 and 6).

Table 5 **Participants' responses to statement 'I know enough about pensions to be sure I could be saving in an appropriate pension plan, if I chose to'**

Strongly agree	15%
Tend to agree	29%
Neither agree nor disagree	17%
Tend to disagree	14%
Strongly disagree	12%
Don't know	4%
Not applicable	11%
Agree	43%
Disagree	25%

Responses to the statement on this topic show there is a significant gap in financial capability: almost half of the respondents disagreed or replied 'neither agree nor disagree' that they could choose an appropriate pension plan. There was a significant, but not large, variation across occupational groups; those in lower occupational groups were less likely to be confident that they could choose the right pension plan. This figure was also high for 25–34-year-olds; yet those in this group need to choose a pension plan.

Workshop findings

The participants were broadly confident of their ability to manage their own budgets. Half of the group said they were fiscally cautious, preferring only to spend what they could currently afford. Although participants said that banks provided sufficient information on the various products, there was cynicism about banks and whether they had their customers' best interests at heart.

Participants expressed weariness about credit cards and their potential for misuse. Several people spoke of the importance of paying credit card bills immediately and not going into overdraft; others said that they avoided credit cards altogether. Some members of the group felt overwhelmed by the plethora of different options. Although most felt comfortable with their level of knowledge, a couple confessed to not understanding interest rates and being fearful of overdraft charges.

Participants lacked confidence and interest in pensions. The younger ones felt that it was not worth committing money now for some far off future gain, and were cynical about the mis-selling of pensions. Yet older participants countered these views, expressing regret about not having saved earlier to prepare for their retirement.

Direct.gov and other government websites are suggested as a source for information about pensions, although they were not used by anyone in the group. One participant mentioned moneysupermarket.com as a relatively unbiased source of

Table 6

Participants' responses to statement 'I know enough about pensions to be sure I could be saving in an appropriate pension plan, if I chose to', broken down by sex, age, social grade and marital status

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
Strongly agree	148 (15%)	88 (18%)	60 (11%)
Tend to agree	290 (29%)	142 (29%)	148 (28%)
Neither agree nor disagree	168 (17%)	68 (14%)	101 (19%)
Tend to disagree	138 (14%)	71 (14%)	67 (13%)
Strongly disagree	119 (12%)	50 (10%)	69 (13%)
Agree (net)	438 (43%)	230 (47%)	208 (40%)
Disagree (net)	257 (25%)	121 (25%)	136 (26%)
Not applicable	109 (11%)	56 (12%)	52 (10%)
Don't know	38 (4%)	14 (3%)	24 (5%)

	Total	Marital status		
		Mar / Living	Single	Wid / Div / Sep
Unweighted base	**1007**	**599**	**224**	**180**
Weighted base	**1010** (100%)	**617** (100%)	**227** (100%)	**162** (100%)
Strongly agree	148 (15%)	111 (18%)	19 (9%)	18 (11%)
Tend to agree	290 (29%)	192 (31%)	51 (23%)	45 (28%)
Neither agree nor disagree	168 (17%)	106 (17%)	37 (16%)	23 (14%)
Tend to disagree	138 (14%)	88 (17%)	31 (14%)	20 (12%)
Strongly disagree	119 (12%)	54 (9%)	49 (22%)	16 (10%)
Agree (net)	438 (43%)	303 (49%)	71 (31%)	63 (39%)
Disagree (net)	257 (27%)	142 (23%)	80 (35%)	36 (22%)
Not applicable	109 (11%)	48 (8%)	25 (11%)	36 (22%)
Don't know	38 (4%)	18 (3%)	15 (7%)	5 (3%)

Age					
15-24	25-34	35-44	45-54	55-64	65+
141	144	160	147	173	242
160 (100%)	158 (100%)	185 (100%)	163 (100%)	146 (100%)	199 (100%)
11 (7%)	22 (14%)	30 (16%)	35 (21%)	34 (23%)	16 (8%)
30 (19%)	48 (30%)	66 (36%)	61 (37%)	34 (23%)	52 (26%)
21 (13%)	20 (13%)	40 (22%)	28 (17%)	28 (19%)	31 (16%)
25 (16%)	35 (22%)	15 (8%)	25 (15%)	19 (13%)	18 (9%)
45 (28%)	21 (14%)	18 (10%)	11 (7%)	18 (12%)	7 (3%)
41 (26%)	70 (44%)	96 (52%)	95 (58%)	68 (46%)	68 (34%)
70 (44%)	57 (36%)	33 (18%)	36 (22%)	37 (25%)	25 (13%)
16 (10%)	4 (2%)	8 (4%)	1 (1%)	11 (7%)	69 (35%)
12 (8%)	7 (4%)	8 (4%)	3 (2%)	3 (2%)	5 (3%)

Social grade					
AB	C1	C2	DE	ABC1	C2DE
178	318	215	296	496	511
269 (100%)	289 (100%)	213 (100%)	239 (100%)	559 (100%)	452 (100%)
55 (20%)	43 (15%)	35 (16%)	15 (6%)	98 (17%)	50 (11%)
90 (43%)	93 (32%)	55 (26%)	52 (22%)	183 (33%)	107 (24%)
43 (16%)	46 (16%)	38 (18%)	42 (18%)	88 (16%)	80 (18%)
25 (9%)	43 (15%)	29 (13%)	42 (17%)	68 (12%)	70 (16%)
32 (12%)	33 (11%)	26 (12%)	29 (12%)	65 (12%)	55 (12%)
145 (54%)	136 (47%)	89 (42%)	68 (28%)	281 (50%)	157 (35%)
57 (21%)	75 (26%)	54 (26%)	71 (30%)	132 (24%)	125 (28%)
21 (8%)	27 (9%)	23 (11%)	38 (16%)	48 (9%)	60 (13%)
4 (1%)	5 (2%)	8 (4%)	21 (9%)	9 (2%)	29 (6%)

information, also featuring an open forum for discussion and questions. However, most participants used the internet for financial advice and were more likely to read newspapers for economic news.

Economic knowledge and confidence

We explored levels of confidence and understanding of economics issues by asking participants about the extent to which they agreed with subjective assessments of understanding of sub-prime mortgages and true or false statements on inflation and interest rates. Findings for each of these questions are dealt with in turn below, followed with an analysis of associated findings from the workshops.

Confidence in understanding what sub-prime mortgages are

We asked participants whether they understood what 'sub-prime mortgages' are (tables 7 and 9).

Given the centrality of sub-prime mortgages to the credit crunch and global financial crisis, this is a worrying result: more than half of the participants, including a significant proportion

Table 7 **Participants' responses to statement 'I am confident that I understand what "sub-prime mortgages" are'**

Strongly agree	14%
Tend to agree	16%
Neither agree nor disagree	9%
Tend to disagree	15%
Strongly disagree	39%
Don't know	8%
Not applicable	–
Agree	30%
Disagree	53%

of those who were educated to university level, did not know what sub-prime mortgages are. The media is using such phrases to explain the crisis, but with limited success.

Lower occupational groups were much less likely to know what sub-prime mortgages are. So, those most likely to take on sub-prime mortgages are least likely to understand them (and, by extension, their role in the financial crisis).

Which individuals or organisations will be helped by an increase in inflation

We asked participants which individuals or organisations they thought are most likely to be helped by an increase in inflation? (table 8).

This is one of the more difficult questions in the survey, and only just over a third of respondents answer correctly. This shows a lack of understanding of the effects of inflation, despite the fact that the Bank of England's responses to inflationary pressures have been widely reported and discussed in the media.

Table 8 **Participants' replies to question 'Which of the following individuals or organisations are most likely to be helped by an increase in inflation?'**

People living on a fixed income	13%
Banks that lend money at a fixed rate of interest	30%
People who borrow money at a fixed rate of interest (the right answer)	35%
Don't know	21%

Table 9 **Participants' responses to statement 'I am confident that I understand what "sub-prime mortgages" are', broken down by sex, age, social grade and marital status**

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
Strongly agree	137 (14%)	104 (21%)	33 (6%)
Tend to agree	163 (16%)	88 (18%)	75 (14%)
Neither agree nor disagree	91 (9%)	42 (9%)	49 (9%)
Tend to disagree	147 (15%)	63 (13%)	84 (16%)
Strongly disagree	391 (39%)	148 (30%)	243 (47%)
Agree (net)	300 (30%)	192 (39%)	108 (21%)
Disagree (net)	538 (53%)	211 (43%)	327 (63%)
Not applicable			
Don't know	81 (8%)	44 (9%)	37 (7%)

	Total	Marital status		
		Mar / Living	Single	Wid / Div / Sep
Unweighted base	**1007**	**599**	**224**	**180**
Weighted base	**1010** (100%)	**617** (100%)	**227** (100%)	**162** (100%)
Strongly agree	137 (14%)	107 (17%)	14 (6%)	16 (10%)
Tend to agree	163 (16%)	103 (17%)	35 (15%)	23 (14%)
Neither agree nor disagree	91 (9%)	51 (8%)	21 (9%)	18 (11%)
Tend to disagree	147 (15%)	93 (15%)	35 (16%)	19 (11%)
Strongly disagree	391 (39%)	233 (38%)	90 (40%)	68 (42%)
Agree (net)	300 (30%)	210 (34%)	49 (22 %)	39 (24%)
Disagree (net)	538 (53%)	326 (53%)	125 (55%)	86 (53%)
Not applicable				
Don't know	81 (8%)	31 (3 %)	31 (14%)	19 (12%)

Age					
15-24	25-34	35-44	45-54	55-64	65+
141	144	160	147	173	242
160 (100%)	158 (100%)	185 (100%)	163 (100%)	146 (100%)	199 (100%)
4 (3 %)	26 (17%)	31 (17%)	30 (18%)	31 (21%)	15 (7%)
13 (8%)	23 (15%)	38 (21%)	36 (22 %)	27 (35%)	25 (13%)
13 (8%)	16 (10%)	13 (7%)	14 (8%)	14 (9%)	23 (1 2%)
27 (17%)	25 (16%)	24 (13%)	28 (17%)	13 (7%)	29 (15%)
81 (51%)	56 (36%)	69 (38%)	45 (28%)	54 (37%)	84 (42%)
17 (11%)	50 (31%)	69 (37%)	66 (40%)	58 (40%)	40 (20%)
108 (68%)	82 (5 2%)	94 (51%)	73 (45%)	68 (46%)	114 (57%)
21 (13%)	11 (7%)	10 (5%)	10 (6%)	7 (5%)	22 (11%)

Social grade					
AB	C1	C2	DE	ABC1	C2DE
178	318	215	296	496	511
269 (100%)	289 (100%)	213 (100%)	239 (100%)	559 (100%)	452 (100%)
69 (25%)	45 (15%)	20 (9%)	3 (1%)	113 (20%)	23 (5%)
68 (25%)	51 (32%)	28 (13%)	17 (7%)	119 (21%)	44 (10%)
18 (7%)	34 (1 2%)	12 (6%)	28 (1 2%)	52 (9%)	40 (9%)
27 (10%)	48 (17%)	30 (14%)	42 (17%)	75 (13%)	72 (16%)
83 (31%)	96 (33%)	92 (43%)	119 (50%)	180 (32%)	211 (47%)
136 (51%)	96 (33%)	48 (22 %)	20 (8%)	232 (42%)	68 (15%)
111 (41%)	144 (50%)	122 (58%)	160 (67%)	255 (46%)	283 (63%)
5 (2%)	16 (5%)	30 (14%)	31 (13%)	20 (4%)	61 (14%)

True or false statements

We asked participants whether a number of statements were true or false.

Whether businesses are more likely to invest in capital if interest rates go up

We asked participants whether they thought the statement 'If interest rates go up, businesses are more likely to invest in capital (for example, buy more machinery, office equipment or property)' was true or false. More than two-thirds of the participants thought this statement was false (31 per cent – true; 69 per cent – false).

This is a reasonably basic question, and yet almost a third of respondents answered incorrectly, which suggests there is a serious gap in economic literacy. It is notable that a greater proportion of older respondents answered correctly than younger respondents. There is also a significant disparity between occupational groups and income groups; the poorer the respondent, and the lower their occupational group, the less likely they are to answer correctly.

Interestingly, there is not a large disparity between those respondents who were taught economics, and those who were not; this is surprising, given that the survey question is relatively straightforward and relies only on basic economic knowledge.

Whether the price of a product is reduced if manufacturers increase the amount that is available

We asked participants whether they thought the statement 'If manufacturers increase the amount of a product that is available, but no more people want it, the price will go down' was true or false. Nearly three-quarters of participants thought this statement was true (73 per cent – true; 27 per cent – false).

This question concerns very basic economic understanding; the relationship between supply and demand. Thus, although it is not surprising that nearly three-quarters of respondents answered this question correctly, it is disappointing that a quarter of respondents answered incorrectly.

Interestingly, the correlation between correct answers and the age of the respondent goes in the opposite direction from that for the previous question (on interest rates and investments): a higher proportion of younger respondents than older respondents answered correctly.

A much higher proportion of the lowest income group than the higher income groups answered incorrectly, this being one of the widest disparities according to income in this survey. This suggests there is a serious lack of basic economic understanding among low income groups.

Whether most UK taxes are collected by local councils rather than central government

We asked participants whether they thought the statement 'The majority of UK taxation is collected by local councils, rather than central government' was true or false. Nearly two-thirds of participants thought this statement was false (35 per cent – true; 65 per cent – false).

Although in total a majority of respondents answered correctly, among 25–34-year-olds, a majority answered incorrectly. Incorrect responses were also more prevalent among those aged 65+; this skewed understanding may be because this group is unlikely to pay income tax, but will generally be liable to pay council tax.

Teaching of economics up to age 18

We asked participants, 'Were you taught economics at any stage of your education up to age 18?' More than three-quarters had not had this education (24 per cent said yes; 76 per cent said no).

Despite the introduction of economics into the compulsory personal, social, health and economic curriculum, a smaller proportion of 15–24-year-olds were taught economics at school than 25–44-year-olds. Among relatively low-income respondents – those with incomes between £11,500 and £24,999 – the proportion to have received economics education in school was exceptionally low, at only 14 per cent. These findings raise the question of whether it is economic education itself which leads to the higher levels of economic literacy and financial capability that we observed, or whether other underlying common factors explain this disparity – for example, those in higher occupational and income groups are more likely to have been taught economics at school than those in lower ones, and these groups were also more likely to answer the understanding-based questions in our survey correctly.

To further establish which factors determined higher levels of economic knowledge and confidence – and the relationship between the two – we undertook regression analysis, testing the significance of various variables. These included age, education including economics education, occupational group, gender and patterns of media consumption.

We measured low levels of confidence by asking respondents how much they agreed with the statement, 'I am confident that I understand what "sub-prime mortgages" are', and measured low levels of economic knowledge by asking them to answer questions on who benefits from different levels of inflation and interest rates.

Gender was very important in determining whether participants lacked economic confidence, with men significantly more likely to feel confident than women. It is noteworthy that gender was much less significant for whether one felt financially confident. Moreover, in simulations comparing a man and woman, both in grade C1 and without a degree, the woman would be approximately only 12 per cent less likely to be economically knowledgeable yet 30 per cent less confident.

Alongside gender, education levels made a significant difference. Having a degree or postgraduate qualification markedly improves the economic confidence of the respondent, and levels of confidence, while not identical, correlated positively with levels of knowledge. Having been taught economics in particular makes a statistically significance difference, but is not a particularly strong factor. One is more likely to have studied economics if one is more highly educated and being more highly educated is better at explaining 'economic confidence' than whether the respondent 'studied economics before the age of 18'.

In turn, occupational group was more important than whether one studied economics in determining whether participants felt economically confident. Belonging to occupational group B significantly improved one's likelihood of being 'economically confident', even after education levels are included.

There was a divide in the economic confidence of participants in different age groups. Those aged 16–24 were far more likely to be less confident than all other age groups. This is a binary distinction: the other age groups are more similar. Those in older age groups (55+) were the most economically confident.

As with all the relationships it is difficult to know the direction of the causal effect of newspaper readership. However, the type of daily newspaper participants read was more important in determining economic confidence than whether the respondent had studied economics. But the type of newspaper read was important. Reading a daily broadsheet was an important indicator of participants feeling economically confident. This was even after we took account of occupational group and education. If we measured two people of the same occupational group and same educational attainment level, and one read a broadsheet and one didn't, we would find a statistically significant increase in their 'economic confidence'. Correspondingly, we did not find this effect among those reading a daily tabloid newspaper. The effect of reading a middle-brow newspaper was more mixed, though individuals in this group tended to be less economically confident.

Workshop findings

When asked what words or images sprung to mind when 'economics' was mentioned, initial responses included phrases such as 'impenetrable' and images of 'numbers and men in suits with ties and stern faces'. One participant elicited widespread agreement when she said, 'It's boring; I've never really been clever enough to understand it. It doesn't affect my life.' Another encapsulated a view expressed by others saying: 'There's so little that individuals can do to affect the economy. Why bother?' A minority of participants gave a broader view, with one saying, 'the way society works, and the way people work together and against each other within that society'.

Several participants confessed that economic news goes largely over their heads, as they feel unable to understand the intricacies or affect the situation. There was a marked gender divide, with the men being somewhat keen to express their views and share their knowledge of the economy, and the women feeling overwhelmed and wanting to just dismiss it. Many participants felt media and other information sources were often biased, though they felt they were aware of the biases in their reading or viewing choices.

None of the group recalled being taught any economics at school. Some people learnt from their parents while growing up. Participants believe people should be taught about personal finance, credit cards and so on as well as being given a broader understanding of economic issues. Some participants were sceptical of the role of banks in going into schools and educating children about personal finance.

Approximately half the participants understood the importance of interest rates; and a minority displayed some knowledge of the Treasury and Bank of England sitting down to discuss setting the base rate. About a third of participants admitted to 'avoiding thinking about it'. There was general awareness that the government affects the economy through taxation and spending on healthcare and social security. However, there was a strong sense of fatalism about politics and politicians in general; all government action was viewed through a prism of mistrust.

There was a general feeling that individual spending has little effect on the wider economy – participants struggled to see what influence they had on the economy rather than being affected by it. Most participants were not interested in investing or earning interest on savings. Their primary concern was that they didn't lose any of their savings.

Economics and politics

We explored attitudes towards and knowledge of economics, citizenship and politics by asking participants the extent to which they agreed with statements or to reply to questions on economics and politics, and the extent to which economic policy affects voting behaviour. We discuss our findings and associated findings from the workshops below.

Deciding which political party has the best policies for managing the economy

We asked participants whether they were confident they could decide which political party has the best policies for managing the economy (tables 10 and 11).

Table 10 **Participants' responses to statement 'I am confident that I can decide which political party has the best policies for managing the economy'**

Strongly agree	14%
Tend to agree	26%
Neither agree nor disagree	24%
Tend to disagree	15%
Strongly disagree	14%
Don't know	6%
Not applicable	–
Agree	40%
Disagree	29%

The replies on this subject demonstrated one of the clearest gaps in economic literacy, which impacts directly on economic citizenship – citizens' ability to hold governments to account on economic policy is limited, as is their ability to elect the government which best represents their economic interests.

Note from table 11 the anomaly that those in the C1 occupational group had significantly less confidence in their ability to assess parties' economic policies than those in higher and lower occupational groups. This could be because the economic interests of this occupational group are not clear-cut:

Table 11 **Participants' responses to statement 'I am confident that I can decide which political party has the best policies for managing the economy', broken down by sex, age and social grade**

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
Strongly agree	142 (14%)	84 (17%)	58 (11%)
Tend to agree	264 (24%)	125 (18%)	139 (27%)
Neither agree nor disagree	246 (24%)	118 (24%)	128 (25%)
Tend to disagree	154 (9%)	73 (15%)	80 (15%)
Strongly disagree	143 (15%)	61 (12%)	82 (16%)
Agree (net)	406 (40%)	209 (43%)	197 (38%)
Disagree (net)	296 (29%)	134 (27%)	162 (31%)
Not applicable			
Don't know	62 (6%)	28 (6%)	34 (7%)

	Total
Unweighted base	**1007**
Weighted base	**1010** (100%)
Strongly agree	142 (14%)
Tend to agree	264 (24%)
Neither agree nor disagree	246 (24%)
Tend to disagree	154 (9%)
Strongly disagree	143 (15%)
Agree (net)	406 (40%)
Disagree (net)	296 (29%)
Not applicable	
Don't know	62 (6%)

Age					
15-24	**25-34**	**35-44**	**45-54**	**55-64**	**65+**
141	**144**	**160**	**147**	**173**	**242**
160 (100%)	**158** (100%)	**185** (100%)	**163** (100%)	**146** (100%)	**199** (100%)
11 (7%)	15 (10%)	24 (13%)	27 (17%)	32 (22%)	34 (17%)
40 (25%)	44 (28%)	41 (22%)	47 (29%)	44 (30%)	49 (24%)
47 (30%)	35 (22%)	53 (29%)	41 (25%)	23 (16%)	46 (23%)
20 (13%)	30 (19%)	26 (14%)	30 (18%)	20 (14%)	28 (14%)
30 (19%)	18 (11%)	29 (16%)	13 (8%)	23 (16%)	30 (15%)
51 (32%)	59 (38%)	65 (35%)	74 (46%)	75 (51%)	82 (41%)
50 (31%)	48 (30%)	55 (30%)	42 (26%)	43 (29%)	58 (29%)
12 (8%)	15 (10%)	11 (6%)	6 (4%)	5 (4%)	12 (6%)

Social grade					
AB	**C1**	**C2**	**DE**	**ABC1**	**C2DE**
178	**318**	**215**	**296**	**496**	**511**
269 (100%)	**289** (100%)	**213** (100%)	**239** (100%)	**559** (100%)	**452** (100%)
48 (18%)	51 (18%)	24 (11%)	18 (8%)	100 (18%)	42 (9%)
78 (29%)	84 (29%)	52 (24%)	51 (21%)	162 (29%)	103 (23%)
55 (21%)	72 (25%)	49 (23%)	69 (29%)	128 (23%)	118 (26%)
51 (19%)	40 (14%)	29 (13%)	34 (14%)	91 (16%)	62 (14%)
32 (12%)	31 (11%)	39 (18%)	41 (17%)	63 (11%)	80 (18%)
126 (47%)	135 (47%)	76 (36%)	69 (29%)	261 (47%)	145 (32%)
83 (31%)	71 (25%)	67 (32%)	74 (31%)	154 (28%)	142 (31%)
5 (2%)	10 (4%)	20 (10%)	27 (11%)	15 (3%)	47 (10%)

not obviously aligned with either low tax, or more interventionist and redistributive policies.

The impact of economic policies on voting in the last general election

We asked participants about whether parties' economic policies had influenced how they had voted in the last general election (tables 12 and 15).

Table 12 **Participants' responses when asked 'I'd like you to think about the last general election you voted in. How much impact did the economic policies of politicians have on your decision?'**

A major impact	19%
A minor impact	29%
No impact at all	26%
I have not voted in a general election	21%
Don't know	5%

It is particularly notable that economic policies had no impact at all on the voting decisions of more than one-quarter of respondents in the 2005 general election. Those in low income groups tended to place less importance on the economic policies of parties when deciding who to vote for. Is this because no party's economic policy held much appeal for them, or are there other reasons for this disengagement? Whatever the reasons, those in the most economically vulnerable income group in society seemed to consider the economic policies of parties was the least important factor when deciding who to vote for.

The average income for those working full time in the UK

We asked participants what they thought was the average income before tax of those working full time in the UK (table 13).

Table 13 **Participants' replies when asked 'Which of the following is the average income, before tax, across all those working full time in the UK rounded to the nearest £1000?'**

£32,000 a year	15%
£25,000 a year (the right answer)	47%
£20,000 a year	37%
£38,000 a year	2%

Almost half the respondents answered correctly, and over a third answered with the closest incorrect figure. This suggests there is a widespread good understanding of the basics of the income distribution in the UK. High-income respondents were more likely to overestimate the UK's median income, while those in low income groups were more likely to underestimate the median income. This suggests that many individuals – across income groups – assume that their *own* income is close to the UK's median income.

What takes the biggest share of public spending

We asked participants which of three areas they thought takes the biggest share of public spending in the UK at the moment (table 14).

Table 14 **Participants' replies when asked 'Which of the following areas takes the biggest share of public spending in the UK at the moment?'**

Education	11%
Crime reduction and public order	12%
Social security (the right answer)	36%
Health	41%

Table 15 **Participants' responses when asked 'I'd like you to think about the last general election you voted in. How much impact did the economic policies of politicians have on your decision?', broken down by sex, age and social grade**

	Total	Sex	
		Male	Female
Unweighted base	**1007**	**490**	**517**
Weighted base	**1010** (100%)	**489** (100%)	**522** (100%)
A major impact	188 (19%)	95 (19%)	93 (18%)
A minor impact	296 (29%)	165 (34%)	131 (25%)
No impact at all	259 (26%)	108 (22%)	151 (29%)
I have not voted in a general election	214 (21%)	96 (20%)	118 (23%)
Had an impact (net)	48 4 (15%)	260 (53%)	224 (43%)
Don't know	53 (5%)	24 (5%)	29 (6%)

	Total
Unweighted base	**1007**
Weighted base	**1010** (100%)
A major impact	188 (19%)
A minor impact	296 (29%)
No impact at all	259 (26%)
I have not voted in a general election	214 (21%)
Had an impact (net)	48 4 (15%)
Don't know	53 (5%)

Age					
15-24	25-34	35-44	45-54	55-64	65+
141	**144**	**160**	**147**	**173**	**242**
160 (100%)	**158** (100%)	**185** (100%)	**163** (100%)	**146** (100%)	**199** (100%)
3 (2%)	22 (14%)	28 (15%)	39 (24%)	43 (30%)	53 (27%)
21 (13%)	47 (30%)	68 (37%)	57 (35%)	47 (32%)	55 (28%)
28 (18%)	33 (21%)	44 (24%)	46 (28%)	41 (28%)	67 (34%)
98 (61%)	45 (29%)	34 (18%)	16 (10%)	12 (8%)	10 (5%)
24 (15%)	69 (44%)	96 (52%)	97 (59%)	90 (61%)	108 (54%)
11 (7%)	10 (6%)	10 (6%)	5 (3%)	4 (3%)	13 (7%)

Social grade					
AB	C1	C2	DE	ABC1	C2DE
178	**318**	**215**	**296**	**496**	**511**
269 (100%)	**289** (100%)	**213** (100%)	**239** (100%)	**559** (100%)	**452** (100%)
69 (26%)	59 (20%)	34 (16%)	27 (11%)	127 (23%)	61 (13%)
95 (35%)	96 (33%)	50 (23%)	55 (23%)	191 (34%)	105 (23%)
66 (24%)	65 (22%)	60 (28%)	68 (29%)	131 (23%)	128 (28%)
37 (14%)	59 (20%)	48 (22%)	71 (30%)	95 (17%)	119 (26%)
164 (61%)	154 (53%)	84 (40%)	81 (34%)	318 (57%)	166 (37%)
3 (1%)	12 (4%)	21 (10%)	18 (7%)	15 (3%)	38 (9%)

The majority of respondents answered incorrectly, with the largest proportion believing that health receives the greatest share of public spending; could this be the result of frequent media reports of NHS finances? The responses to this question are particularly significant, as it is the only question in which lower occupational groups and income groups were more likely to answer correctly than richer respondents, and those in AB–C1 occupational groups. This may be because those in lower income groups are more likely to be recipients of social security payments, and thus have a better understanding of the cost of social security programmes.

Workshop findings

All participants were aware of the current economic crisis, but felt overwhelmed and confused by the different and contradictory views expressed in the media on the causes and routes to recovery, so much so that many were tempted to dismiss all of it. One also mentioned the failure to understand the historical component of the crash and the comparisons with the 1930s. Although many felt the banks were to blame, they were also critical of the government for borrowing too much and being too hands-off with the banks, enabling them to make easy money by acting irresponsibly.

Reflecting the pervasive sense of cynicism towards politicians, most participants said that the economic policies of political parties would not affect how they voted. They also acknowledged that, despite the fact that an election was two months away, they knew little about the different policies of the main parties on economic issues. At the outset, they said they were more inclined to believe politicians promising spending cuts rather than those promising increased spending. As one participant put it, 'When someone says they're going to cut something, they invariably do.'

There was a pervasive sense of anger that the crisis was having negative consequences for people who had no part in it, while bailed out banks were still awarding staff bonuses: 'it's not really our fault, but it's affecting us'. Despite an initial sense that the crisis was too complex for ordinary people to understand, a number of participants put forward their own explanations:

I would say I've got quite a basic understanding of it. You're buying up banks that are already losing money and making them government-run. They owe money so you're just taking on more problems. And if people in banks are getting big bonuses and it's going to them there's nothing for the people.

Another said that although they didn't understand the nature of the crisis it had directly affected their behaviour:

I don't understand the credit crunch too much, but I was one of the first to go to the bank and withdraw all my money… Underneath my pillow is better. I don't understand it, I just worry about my money.

A female participant felt that when the crisis first occurred it was purposely explained by politicians and the media 'so it would go over my head, and then a bit later it came out about how it happened, who was involved'.

Attitudes towards the public debt

We gave participants in the workshop a basic overview of the public sector deficit and debt, which included historical comparisons and a descriptive statement of three main parties' responses to it. Then two economists gave presentations, the first arguing the case for rapid and deep cuts to reduce the deficit, and the second the case for sustaining current levels of debt as a vital means of stimulating economic recovery.

Participants were not aware of the figure for the debt or the differences between the deficit and the debt. Some were surprised to see the amounts that other countries owe and the 'lifetime cycle of debt in the UK'. The group was initially divided between cutting fast and cutting slowly, though at least a third had no opinion when first asked about this.

After hearing and discussing the presentations, most participants could see the merits of both arguments, but they didn't necessarily change their initial positions. There was a slight consensus over the desire to have a pragmatic 'bit of both' approach, with spending cuts in some areas, preserving spending in others and the need for tax rises. Participants generally thought the deficit was caused by bad management and profligacy, and improving these is what is necessary:

Will the cuts be enough to get us out of debt? I don't think it will, I think it will need to be a combination of cuts and tax increases… I think there is a solution, but it's got to be a long-term solution…

Others were unsure:

We talk about option one and option two. I think both options are wrong, we need a third option.

And what is the third option?

I don't know.

However, a minority of participants felt the argument for sustaining public spending to aid recovery 'was more convincing as it ranged over more areas, didn't just focus on cuts and looked at the bigger picture'. These participants felt that it was misleading to present a case for cuts without considering why the deficit had increased and the role of public spending in stimulating recovery. As one put it:

What I got from [the presentations] is one is saying stop spending, basically, and let's slow down the rate of the debt because it's continuously increasing, and the other is saying let's restructure how money is being managed within the economy and put things into place, higher taxes, higher corporation tax and so forth, restructure everything as opposed to cutting because that will cause a knock-on effect. There is a wider set of problems that need to be focused on.

There was a majority view that welfare spending either 'rewarded the lazy' or was unfairly distributed, and should therefore be a key area, if not the key area, in which spending was reduced. Other areas that could be cut included defence and one-off initiatives such as ID cards. Participants were unanimous in their opposition to NHS cuts, feeling that it has just ‘got itself sorted’. However, a minority adopted a different attitude toward benefit claimants worrying that ‘there should be cuts in other regions rather than the poor person being kicked down again’.

In the course of the discussion a degree of understanding emerged about the difficulty of the task facing politicians. For example, when a participant said, ‘I’m happy with the welfare cuts, but transport cuts and hospital cuts are not OK’, another responded, ‘Yeah, but someone will say something else and it’s how to please everybody’. While there was a degree of hostility to bankers being given bonuses, it was recognised that ‘government needs to keep big business happy to keep up their tax receipts’. This prompted some participants to raise concerns about tax evasion by big business, prompting a discussion on the extent to which there should be tax rises as well as, or instead of, spending cuts. They had a mix of views: some were against any form of increase in taxation; some felt ‘only the rich should be taxed more’; and some took the more measured view that ‘we should all get hit according to your size’ – suggesting that those on benefits should maybe get less a month, and the football industry should be more heavily taxed.

Talk of taxation led on to questions of governance and power. Some felt that government was so dependent on the actions of the banking sector that there was little they could do to change the situation. One participant argued that there needs to be ‘a reshuffle of who makes these decisions: 20 key people are setting interest rates, are saying how much bonuses are. Perhaps we need to reshuffle those people.’ Another made an analogy with bad management at their workplace:

Where I work at the moment, you have a man at the top and he says we’re going to do this, this, this and that, and doesn’t ask the team how it’s going to work before they put it into place, and it’s wasted money. They need to ask us first.

Several participants called for collaborative effort to resolve the situation, rather than an either/or agenda of rapid cuts or sustained public spending.

At the end of the discussion, only a minority said that knowing more about the way parties approached the deficit would affect how they voted. This was less to do with the merits of either approach, and more to do with an endemic mistrust of any politician and sense of powerlessness – 'we can't really change anything by voting'.

However, despite these negative feelings towards politicians, most in the group were surprised at how interesting they found the discussion and 'how much potential there was in learning about economics' for understanding social and political issues. Two-thirds of participants also claimed that they were now much more likely to read newspapers and pursue conversations with others about these matters.

4 Recommendations

The facilitation of greater economic literacy among British citizens is a vital component of any attempt to involve the electorate more fully in economic decision making. This agenda requires a move away from the perception of an individual's engagement in the economy purely through the lens of their role as consumers. Instead, government needs to interact with individuals as citizens, capable and entitled to have voice in debates over economic questions and ideas.

But simply teaching people the rules, ideas and philosophies that different schools of economics endorse is not enough. First, it is impractical to attempt to inform every citizen of every principle and theory of economics. Second, economics is a highly contested area of thought and application. We want citizens to take part in economic decision making because they are affected by the outcomes of economic decisions – but this does not mean that we want to adopt a singular perspective on economics, which we can then teach as dogma. Instead, we need to identify practical, experiential means of engaging the citizenry at large in discussions and decisions that are grounded in economics.

One of the recurring themes of analysis of the economic crisis has been criticism of the 'group-think' mentality that grew up in the commercial and regulatory financial sectors. Both the poacher and the gamekeeper had adopted a particular set of assumptions – on human behaviour, market dynamic and risk calculation – that restricted their ability to foresee, or protect themselves against, the impending crisis. The opening of these institutions to citizens would be useful in weakening and challenging such group-think, and in forcing practitioners and regulators alike to take account of the perceptions, ideas and fears of those from outside their profession.

By adopting a policy of openness and direct engagement, and increasing the opportunities for lay involvement in economic decision making, government can broaden economic understanding at the same time as challenging perceived economic wisdom and thoroughly engaging public opinion.

Changing how we measure social and economic progress

Judgements about the effectiveness of economic policy are shaped by the criteria used to measure economic progress, and its effects – positive and negative – on social welfare. Since the 1960s, and in parallel with the dominance of neo-classical economics, gross domestic product (GDP) has been taken as the standard measure of economic and social welfare, based in part on the assumption that social values and market prices are one and the same.

GDP measures the total output of an economy in a certain time period. Many, most notably environmental campaigners, have long been critical of the limits of the measure to take into account social and environmental goods and harms, in addition giving a meaningful assessment of economic growth itself. Alternative indicators have proliferated in recent decades, the most well known being the Human Development Index.

Yet until recently no national government has considered adopting these more holistic frameworks for measuring the effectiveness of policy. This changed when President Sarkozy established the Commission on the Measurement of Economic Performance and Social Progress in 2008. The Commission was tasked with considering the limits of GDP, reviewing what additional information might be required for the production of more relevant indicators of social progress and assessing their feasibility. Headed by three distinguished economists – Joseph Stiglitz, Amartya Sen and Jean Paul Fitousi – the final report called for and proposed more comprehensive measures of economic performance, accounting for such factors as environmental degradation, income distribution and quality of life.[58] As Anatole Kaletsky suggests, 'The significance of this report was not in its detailed recommendations... but in the questions it raised between politics and economics.'[59]

The Commission's report argued that 'what we measure shapes what we collectively strive to pursue – and what we pursue determines what we measure'.[60] Thus the economic statistics presented to citizens as measures of success, implicitly or explicitly, make prior assumptions on what should be valued. According to President Sarkozy, to ask ourselves questions about how we measure is to ask ourselves questions 'about what our goals truly are'.[61]

The report argues that the economic measurement system should shift emphasis from measuring economic production to measuring people's well-being.[62] There are several dimensions to well-being, but a good place to start is the measurement of material well-being or living standards.

The report presents several recommendations for what should be the components of the new measure. The first set of components considers the importance of making the measure refer to individuals' experience of the economy in a better way. It includes a recommendation that the measure should refer to income and consumption, as opposed to production, because it better reflects people's experience of the economy. The report argues that this also entails including non-market activities that are not measured by GDP, including leisure-time. The report acknowledges that these activities are difficult to measure but argues that recent improvements in analytical tools make it possible to conduct such a study. Also, the measure should refer to the households' perspective, not the national economy, as better comparisons can be made. For example, GDP refers to national income, whereas GDP per capita refers to national income per person, therefore is more helpful for international comparison; it takes account of population differences.

The second set of components considers the importance of widening the measurement to include other values important to well-being, such as inequality and education. The report recommends including a measure for distribution of income, consumption and wealth. But the report emphasises that they are very interrelated; for example, wealth can be transferred to consumption through an inter-temporal trade-off (more consumption now in exchange for less later). It also recommends deploying a multidimensional measure of well-being, including:

- material living standards (income, consumption and wealth)
- health
- education
- personal activities including work
- political voice and governance
- social connections and relationships
- environment (present and future conditions)
- insecurity, of an economic as well as a physical nature.

The report recommends that there should be more research into improving measurements for each of these dimensions and into the interrelated nature of each of these dimensions. There should be an objective and subjective index for each of these measures. The report stresses that these dimensions should inform economic policy.

Finally, the report emphasises the need for long- and short-term economic measures. It argues that well-being should not be conflated with sustainability. Sustainability is a long-term measurement, while well-being is not. In this sustainability measure, the report argues, there should be included a measure for environmental damage.

We recommend that the government should initiate a formal commission to consider how these recommendations might be translated into the UK context over the medium and long term. The commission should include a significant component of public engagement to understand how economic measures can be made more relevant to people's everyday experience as citizens and consumers.

Education

Under New Labour a range of educational initiatives was introduced in response to what was increasingly perceived to be a damaging lack of economic awareness. A focus on financial capability and enterprise in the context of work related learning were the main components of this response. In addition, knowing about 'how the economy functions, including the role of business and financial services' was part of the programme of study for citizenship education, introduced into the secondary curriculum in 2002.

Financial capability and enterprise are currently taught in a confusing mixture of mandatory and non-mandatory initiatives as part of personal, social, health and economic (PSHE) education.[63] Based on the Every Child Matters outcomes, from 2009 there were two new non-statutory programmes of study at key stages 3 and 4: personal well-being, and economic well-being and financial capability. Economic well-being and financial capability brings together careers education, work-related learning, enterprise and financial capability. Although these programmes as a whole are non-mandatory, elements of their content are legally required. The 'economic well-being and financial capability' programme provides a context for schools to fulfil their legal responsibility to provide opportunities for careers education at key stage 3, and for careers education and work-related learning at key stage 4.

The main aims of the programme are to 'equip students with the knowledge, skills and attributes to make the most of changing opportunities in learning and work'. It is suggested that students will 'begin to understand the nature of the world of work, the diversity and function of business, and its contribution to national prosperity' and 'develop as questioning and informed consumers and learn to manage their money and finances effectively'.[64]

However, Ofsted's 2008 survey inspections show that economic and business understanding remains the least well-developed aspect of work-related learning. Fewer than half the schools visited had explicit and comprehensive programmes to develop the economic and business understanding and financial capability of all students at key stage 4. This is primarily because PSHE and citizenship education are not examined subjects, so there is little incentive for schools to focus on improving economics education.

Even where such programmes do exist, it is noteworthy that the 'economic' aspects focus more or less exclusively on students as future employees and consumers. Where a sense of economic, rather than purely personal or financial, knowledge is addressed, it primarily involves understanding 'a range of economic and business terms, including the connections between markets, competition, price and profit'. To the extent that students address ethical or normative questions about economics, they are limited to issues of how consumer choices affect other people's countries and environment. Although money management and career planning are important in their own right, they provide no wider insight into the social, political and moral issues that pervade economic activity. They essentially deal with the economy in a highly individualised manner, where students are addressed as individual workers and consumers. Economic knowledge is deployed in the context of personal decisions rather than social or political ones.

The Crick Report, which laid the foundation for citizenship education in 2002, recommended that it should include 'an understanding of the economic system'.[65] Under this understanding the report outlined a spectrum of diverse concepts and issues including ownership, regulation, income distribution, employment, taxation, public services, wealth creation, pensions, globalisation, sustainable development, interdependence and ethical trading.

Yet despite a clear mandate for economic awareness within citizenship this strand can often be overlooked in favour of the more 'traditional' elements relating to human rights and parliamentary democracy. As one practitioner said: 'If one area of the Citizenship National Curriculum has caused the most discussion and often despair among practitioners it is the simple but very complex *How the economy functions*.'[66] This was reflected in a 2008 Ofsted report which found that 'Public services and how they are financed' in key stage 3 and 'How the economy functions, including the role of business and financial services' in key stage 4 are frequently overlooked and often misunderstood.

Reticence in covering the economic strands of the citizenship curriculum is largely due to teachers lacking 'specialist knowledge' or 'confidence' in addressing the economic elements. Fagan's work surveying levels of economic knowledge of student teachers highlighted a prevalence of poor understanding about economic issues.[67] She found generally low levels of economic literacy, and also a lack of interest in economics:

- More than half (52.7 per cent) claimed to have no interest in economic issues as they arise in current affairs such as the budget or the state of the national economy, and the biggest proportion of those not interested was in the under-25 age range
- Only 33.6 per cent got the correct answer on a supply and demand question (asking whether an increase in supply would lead to a decrease in price)
- More than two-thirds (67.3 per cent) gave the correct answer to a question on money, rates and inflation. Most correct answers (90.5 per cent) came from 35–39-year-olds, those who studied economics at school (90.0 per cent) or those who had economics in a degree (93.3 per cent).

This general lack of interest in economics is arguably increased by the way in which the academic discipline of economics has become driven by mathematical and statistical formalism, presenting it as a form of highly technical knowledge beyond the reach of those not versed in advanced mathematics. The number of economics A-level students has fallen by more than a quarter between 1996 and 2006 to about 17,000.

Yet this austere image also serves to mute the highly contested nature of basic economic concepts and the status of economic knowledge itself. What gets lost here is not just a knowledge of 'how the economy functions' but the economic alternatives, and the moral principles underlying them, among which we as *citizens* could choose.[68]

From this perspective, economic literacy needs to be seen as a crucial subset of a wider civic literacy. It cannot be limited to questions of personal consumption, career development or a canon of inherently contested economic concepts. As the education academic Peter Davies argues:

Citizens who understand how their own economic interests are bound up with the interests of other citizens are more likely to support government actions that take all citizens' economic interests into account. They are also more likely to appreciate longer-run implications of economic policy, and this may reduce scope for governments to secure short-term support at the expense of long-term disadvantage for citizens.[69]

Indeed, Davies contends that this civic perspective on the economy has been both poorly articulated in citizenship education and routinely overlooked in traditional economics teaching.[70] His arguments for what the economic component of citizenship education should focus on have wider relevance for how we think about economic literacy.

First, he suggests students should learn to understand how private and social benefits and losses are related and evaluate outcomes of the relationship between social costs and benefits:

Citizens' engagement with each other in the economic sphere will be more constructive if they appreciate that there are some circumstances in which economic self-seeking by one citizen will lead to losses for others, some circumstances in which economic self-seeking by one citizen will lead to benefits for others, and some circumstances where self-seeking by everyone can lead to losses for all.[71]

Second, they should learn how to think about and make judgements on the scope given to markets, governments and social networks in defining and meeting economic needs. Davies cites evidence that economics education challenges the simple conception that 'one person's gain is another's loss'. In this respect economics teaching resulted in more positive attitudes towards the market; students no longer saw the market as simply a zero-sum game. Yet this highlights a weakness in standard economic thinking, in so far as it focused on the allocative efficiencies of markets, in that:

It has struggled to equip students with the ability to reason coherently about the merits of alternative bases for organizing citizens' economic interaction *precisely because those alternative bases draw upon conflicting perceptions of markets, governments, and voluntary organisations.*[72]

Third, the fundamental approach should be taught in a 'maximalist' rather than 'minimalist' manner. Where the former aims to 'induct students into effective performance in one form of citizenship', the latter 'aims to equip individuals to evaluate alternative modes of engagement' by surfacing values and assumptions implicit in different approaches.

The argument for greater economic literacy made here turns on political and civic, rather than individual or financial, considerations – where the latter are understood as the direct economic benefits derived from greater knowledge of how the economy works, whether consumer saving or career development.

The distinctive purpose of literacy about economics is to enhance people's capacity for agency and deliberation across the widest possible range of economic choices they collectively face as community members, workers, employers, tax payers, voters and inhabitants of an environmentally fragile planet.

Realising this expansive vision of economic literacy is extremely challenging. Refining the focus on economics in the citizenship curriculum, and finding ways to support non-specialist teachers in doing so, would be a small but obvious first step. But the agenda can't be limited to the classroom or young people. It requires the proliferation of spaces in which citizens and their representatives can understand, scrutinise and contest the use of economic expertise in decision making.

A translation test for new financial products

The public should be able to understand new financial products and instruments. They should not wait until they are consumers before they are able to judge the worth and risk of financial products, because it is not simply as consumers that they may be affected by failure or collapse. In order to aid public understanding of complex financial arrangements, regulatory bodies should impose a new test on any new product or service – the 'translation test'.

Financial service providers that originate a new investment product would be required to test the ability of the public to engage with its structure, what it does and how big the attached risk is. They would be required to test their 'translation' of their product against a representative sample of the public before being granted approval to trade it. In this way, the public will be engaged in understanding what products are and what they do, providers will be pushed into opening their complex instruments to public scrutiny and knowledge about financial services would be more easily acquired.

Public engagement in economic decisions

We recommend that the areas of public life where economics interacts with, and informs, public policy should be required actively to engage the public and give them voice. This does not mean, of course, that expertise and knowledge should be rejected. It simply means that the benefits and challenges of lay participation would be beneficial to the economic decision making in the same way that they have been in other areas of public life. This is clearly a wide ranging agenda. Below we discuss three key areas of current concern to which this approach could be applied.

Tackling the deficit

Government should lead by example by engaging the public in the major economic debates of the day. The principle that people should be able to contribute ideas and insight to the political decisions over the deficit in public finances has been acknowledged already. The Treasury's 'Spending Challenge' website[73] was set up for this purpose and, despite some farcical and satirical suggestions, it has succeeded in generating some interest. But it is self-selecting and fails to engage with those in the population who are unlikely to seek out opportunities to contribute or to feel confident about their perspectives on economic questions. As our polling has demonstrated, those in groups vulnerable to government spending cuts – such as women and socio-economic groups C and D – are less likely to feel confident about their economic knowledge.

Effective participation involves reaching out to those demographics that are likely to be excluded by a self-selecting process. This means genuine, effective and robust deliberative consultation. America*Speaks*, which has pioneered large scale deliberative events in the US, provides a useful model with its project Our Budget, Our Economy (see box 1).

Government should adapt and adopt the America*Speaks* model to take the comprehensive spending review to the public and stimulate their input and challenge. Ideally, such a process should have taken place before the 2010 spending review. We recommend that the government should fund an independently-run America*Speaks* style process to enable citizens to express their views on decisions made in the spending review, including the opportunity to express alternative trade-offs to those made by the government.

Box 1

National discussion on the America*Speaks* project: Our Budget, Our Economy

*On 26 June 2010, America*Speaks *convened a nationwide 'town meeting' where 3,500 attendees and more online participants across the US simultaneously discussed the future of the national budget and the economy. This national town meeting was designed to educate the American public about the challenges facing the nation, provide a neutral space to explore the issues and weigh up the various trade-offs.*

The town meetings were made up of demographically representative groups of citizens recruited through a sophisticated outreach campaign orchestrated in conjunction with dozens of local partners. Similar to voting profiles, participants tended to be somewhat older, wealthier and less Latino than the general population of the country. The participants at multiple meeting sites across the country were able to communicate via interactive video broadcasts. Participants worked for about three hours in small groups (of eight to ten) with trained facilitators to explore issues and reach *a consensus. The ideas generated in the small group discussions were collected through computers at each table and shared through interviews on camera via satellite. Participants were joined in person or by video by several members of Congress.*

*There were two kinds of America*Speaks *21st-century town meeting locations: large scale and small scale. There were 19 large-scale town meeting locations with hundreds of participants attending each and 38 community conversations small-scale locations based in homes, schools and community centres, attended by up to 70 participants each. All the town meeting locations were linked together by live satellite, web-cast and interactive technology.*

Because participants were encouraged to engage in the trade-offs that economists and policy makers are faced with in reducing government spend, the results give a realistic and interesting picture of the views and priorities of Americans. Among spending options, reductions in defence spending received the most support, with 85 per cent of participants favouring a cut of at least 15 per cent. More than two-thirds (68 per cent) of participants expressed support for reducing all other non-defence spending by at least 5 per cent; 54 per cent of participants expressed support for raising income taxes on those earning more than $1 million by 5 per cent; and 52 per cent of participants expressed support for raising personal tax rates for the top two income brackets by at least 10 per cent. Over half (54 per cent) of participants expressed support for establishing a carbon tax and participants were split evenly over the establishment of a securities-transaction tax.

*America*Speaks *is presenting the priorities that emerged from the national discussion to Congress and President Obama, the National Commission on Fiscal Responsibility and Reform, and the Bi-Partisan Policy Center's Debt Reduction Task Force. It is working with participants and local and national partners, to continue to educate the public about the challenges facing the nation and to raise awareness about the national priorities that were produced through the discussions.*

Strengthening participatory budgeting

The new government is committed to an agenda of localism and decentralisation that is both long overdue and healthy in rebalancing power in the UK. But decentralisation should be accompanied by clear remits for the bodies that are accumulating further powers and greater responsibility.

Local authorities are already required to consult and engage the public in their budgeting process. However, the language of that requirement is vague and does not emphasise the peripheral benefits of pursuing consultation through serious participatory and deliberative mechanisms.

Genuine participation is beneficial in that it more thoroughly establishes and engages the views of the public, but it also helps to educate individuals about the subject under discussion. Participatory budgeting allows the citizens of an area (neighbourhood, regeneration or local authority area) to participate in the allocation of part of the local council's or other statutory agency's (health services, police) available financial resources. Participatory budgeting aims to increase transparency, accountability, understanding and social inclusion in local government affairs. It applies to a varying amount of the local council's budget and the actual process is developed to suit local circumstances.

In practice, participatory budgeting provides citizens with information that enables them to be engaged in prioritising the needs of their neighbourhood, to propose and debate new services and projects, and to set budgets in a democratic and transparent way. As the process becomes embedded it involves citizens being engaged in an annual budgetary cycle of setting priorities and budgets and monitoring the delivery of projects and services.

Engaging publicly with independent economic bodies and regulators

An excellent start would be to create a new duty of public engagement for the Bank of England, with a specific focus on feeding in to the Monetary Policy Committee. This committee, which is responsible for setting interest rates in the UK, was set up by the Labour government in 1997 and is key to macro-economic policy. Its decisions impact profoundly on the fortunes and economic well-being of British people. It is the ultimate example of the interaction between economic expertise and policy making, providing an example of experts being cut loose to make policy themselves.

Currently, the Monetary Policy Committee is made up of nine members: the Governor of the Bank of England, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. All the external members are appointed on the basis of their economic expertise and are there to offer challenge to the institutional biases of the Bank itself. They have full voting rights over the decisions taken by the Committee – alongside the other members – and those decisions are made on the basis of a majority rather than by consensus.

In designing the make-up of the Monetary Policy Committee, the government rightly recognised the need for voices external to the institutional expertise of the bank itself. Aware of the dangers of group-think, it was decided that external perspectives would be useful and would provide balance and fresh views. However, in recognising the dangers of institutional group-think, government failed to recognise the danger posed by expert group-think. The external members of the committee remain professional economists who have been trained to view economic questions through the frame of their expertise. That is useful but not effective in undermining dogmatic, expertise-driven decision making and does nothing to challenge the assumptions on which members of the committee base their decisions.

We recommend that the Bank of England runs a regular series of deliberative events with a representative group of the 'lay public' before Monetary Policy Committee meetings. While the Committee should not be bound by judgements emerging from deliberations on interest rates, it could be used to provide a useful external perspective, which might challenge the received wisdom. The lay public could offer alternative perspectives on the issues and understanding of the practical implications of decisions. It would also help to confront the expert members with the challenge of explaining, translating and communicating their ideas to people who come from outside the world of professional economics. Thus it would not only help decision making but would be positive in a broader sense as a tool for making economics more accessible and open.

We do not dispute the use of expertise in decision making and advising on public policy. It is right and necessary that those who have acquired knowledge and understanding in a particular area are consulted when decisions are required in that area. However, placing undue expectations on the capacity of experts to make decisions on their own is dangerous. We should recognise the weaknesses of a system that allows experts to engage in influential dialogue with policy makers and politicians without any public scrutiny or discussion of the underlying theories and assumptions.

We do not argue that the experts should be cast out of these discussions. Their contributions are valuable, but they should be open to challenge. A duty of public engagement for the Monetary Policy Committee would be a starting point for this process but we should also look at the myriad of other committees and bodies where expertise and policy meet – the Financial Services Authority, financial regulators and other Bank of England committees, for example – and consider how we can bring the lay public into them. Doing so would benefit the public immediately by improving the quality of decision making and indirectly by challenging experts to translate their knowledge in an accessible way. It is an important step towards a more open economics.

5 Conclusion

Economic literacy – as a means to a more open and engaged political economy – is vital to ensuring the economic well-being of this country. The assumptions made by political economists led directly to the failure of our economy and the financial crisis that has produced a record deficit and unprecedented spending cuts. What is more, while trust in the economy has fallen, people are asked to make decisions about economic issues for which they are ill equipped. It is unrealistic to expect to make every citizen an expert but we have encouraged the reverse: by pretending that our economists, financiers and politicians have solved economic questions we have closed down debate.

With the realisation that our economic experts have not succeeded in eliminating the inherent risks of our economy – and that those risks must now be borne by us all – must come a change in the way that we view economics and expertise in general. Having failed to deliver on their promises, members of the economic elite must now re-evaluate their relationship to the public. It is no longer enough to promise and to preach; instead they must engage.

This does not mean simply teaching people more about how to evaluate their investments. That, unfortunately, will not be enough. The focus on literacy and capability as consumers fails fundamentally to engage the public in their wider role and broader rights – as citizens as well as purchasers. The impact of economic collapse will not be felt solely by those who have bought investments or held savings; it has and will be felt by everyone as government shrinks to pay for the mistakes of financiers and economists.

So a new settlement is required. In the same way that the connections between science and politics were forced open into greater transparency in the wake of failings such as the BSE crisis, the interface between politics and economics needs to be forced into the public domain. Expertise can no longer be a free pass to avoid debate, discussion and explanation.

The proposals that we have outlined in this report are a first step to rebalancing the power of economic expertise in public life. It would be wrong to demand that economic theories, ideas and policy be pushed out altogether – rather we argue that they be exposed, challenged and invigorated through participation and public engagement.

By focusing on critical thinking and analysis in economics education we can encourage children to view economics as contested and competing sets of ideas rather than established, neutral fact. By engaging lay members in the key areas of economic policy we can expose decision makers to the public's fears, expectations and priorities. At the same time we can directly demand that decision makers ensure their processes, assumptions and ideas are translatable to those not initiated into the niceties of the economics profession. In the same way, by imposing an accessibility test on new financial instruments and products, we can ensure that citizens and consumers are able to question and challenge the inventions of the financial class. Finally, participatory budgeting and deliberative engagement should become part of the economic decision-making process in this country. By embedding these principles we can benefit from the views and ideas of the public, work towards consensus, challenge received wisdom and improve all-round levels of understanding.

Economic literacy is not an aim in itself, it is a means. In pursuing open economics that is accessible to and engaged with the public, we can educate at the same time as benefit from the challenges to expertise that come with transparent decision making. Combined, this will help us to ensure that our economy is more robust, make our capitalism more legitimate, and enable our population to feel more confident and equipped to take their rightful role in the economic life of our nation.

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A review of the settlement between economics and politics is long overdue. Following the financial crisis, economists are no longer treated with reverence: economics is recognised as contested and competing sets of ideas rather than established, neutral fact. This pamphlet is a first step to rebalancing the power of economic expertise in public life.

Open Economics suggests reforms that work towards consensus, challenge received wisdom and improve all-round levels of understanding. To do this, the economic decision-making process in the UK must involve the public through participatory budgeting and deliberative engagement. A focus on critical thinking and analysis in economics education would enable it to be challenged and invigorated. The involvement of lay members in the key areas of economic policy will expose decision-makers to the public's fears, expectations and priorities. An accessibility test on new financial instruments and products would ensure that consumers are able to question the inventions of the finance sector.

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