

Bölüm 3

FINANCIAL LITERACY FROM THE ASPECT OF PERSONAL AND GENERAL ECONOMIC DEVELOPMENT

Adem ÖZBEK¹

INTRODUCTION

Consumers make various and variable decisions ranging between sheltering and purchasing for living until their retirement period. This diversity is in a constant change, becomes a complex structure, and requires a significant cognitive effort. The cognitive effort required should be made towards the financial literacy. Having significant researches on the financial literacy, Lusardi and Mitchell (2014) define the financial literacy as the combination of the cognitive skills and the investment in human capital for understanding the financial decisions. Within the scope of this definition, the intellectual capacity refers to the habit of understanding the financial decisions and making accurate financial decisions. However, it is necessary to expand this definition and relate the financial literacy to the national and economic development.

Nowadays, it is aimed to have the financial literacy understood as a concept that is important only for the person's own or the persons tend to understand it in this manner. However, every financial decision made individually is considered to be one of the important factors influencing the financial capacity and financial welfare. Thus, determining the factors significantly related with the financial decisions is one of the most important points regarding the personal and national development (Janor et al., 2017:106).

The person exhibits various financial behaviors such as saving, purchasing, and investment. These behaviors arise from the accumulation of knowledge and a decision. Every behavior exhibited has an economic effect in person and in general. It is important for this effect to affect both parties. In other words, when making a saving or investment decision, the person should consider how an effect that decision will have on person's own and the economy. At this point, the financial education laying the foundation of financial literacy should be given by raising this awareness among the individuals.

¹ Asst. Prof., Gümüşhane University, Gümüşhane, Türkiye. E-mail: ademozbek@gumushane.edu.tr

The financial education is of an important role in preventing and controlling the debt and increasing the savings and investment. For this reason, the financial education offers useful instruments to the individuals for making use of the necessary information and making decision during the financial transactions (Potrich et al., 2016).

The policy makers realized the vital importance of financial literacy for a properly functioning economy. For instance; in the USA, Roger Ferguson, the Vice Chairman of the Federal Reserve, stated that the economy strengthens when the millions of educated consumers make good personal financial decisions (Lusardi and Mitchell, 2009:20).

The financial literacy is not related only to the personal and household assets but also to the borrowing. For instance; Campbell (2006) emphasized that the low-income persons with low level of personal literacy would less likely re-finance their mortgage debts during the decreases in interest rates. Similarly, Moore (2003) also stated that the individuals having low level of financial literacy would less likely to have high-cost mortgages.

The crisis in year 2008 is a milestone for understanding how the individuals will develop their borrowing behaviors. The real estate market rising in value in the USA increased the tendency of banks to take a higher share from the credit market and to give credit to low-income families at high amounts. In this period, the families having \$2000 monthly income were given \$100,000 credits. Then, they failed to pay their debts with their incomes. As a result, both the system and the users chose to get rid of this situation at huge costs. The point to pay attention here is why an individual incurs a debt that he/she cannot afford with his/her income. The individuals' lack of financial decision-making capacity can be given as an answer to this question.

Individuals' capacity of making conscious financial decisions has significant importance for the effective personal financial development that would contribute to effective allocation of the financial sources and ensuring the financial stability at both micro and macro levels (Lusardi and Tufano, 2009).

The financial literacy is one of many literacy types such as media, information, and technology literacies. The financial literacy is a part of economic self-sufficiency enabling the individuals to be healthy and productive and it can be best defined as the ability to analyze the economic advancements and the effects of these advancements (Gerek and Kurt, 2008: 4).

The financial literacy is an important determinant for the financial behaviors of the household. Cole et al. (2011) stated that the efforts for developing the finan-

cial literacy can be an important part of increasing the rate of savings and lending money to the poorest and most vulnerable consumers.

It is important for the persons to be equipped with the instruments needed for making accurate financial decisions as the change in savings, investment, and debt management progresses towards the personal responsibility. Increasing the financial literacy might be useful not only for the individuals but also for the development of market and macroeconomic stability (Klapper et al., 2013:3922).

FINANCIAL LITERACY AND SAVINGS

Given the current conditions, the money (especially for the young generation) is considered as a material that should be consumed as soon as possible. People always fray around the edges when considered from the aspects of behaviors and attitudes. The increase in diversity of necessities and the ease of access to any commodity accelerate the personal consumption. In other words, the parents (which we are) grow a constantly consuming society; we do not analyze what we really need and thus we play an important role in this order of wastage.

The most important factor influencing the financial behaviors of the individuals is the observation. Especially the accurate or false financial knowledge and behaviors developed by the parents during the early childhood period are long-lasting ones and the saving habit gained in this period might influence the entire life of that child.

In many academic studies, it has been concluded that the financial literacy pioneers various healthy financial behaviors. The period, in which the ones start establishing financial habits such as saving, investment, and purchasing behaviors, is very important for the financial literacy. The financial education given to the individuals would not be important if the savings do not increase and the accurate investment and consumption decisions are not made.

The rate of saving is very important for the developed and developing countries. The most inexpensive and the easiest instrument for the economic growth is the domestic savings. For this reason, the best way of increasing the domestic savings is to raise financial awareness among the households (Şahin and Barış, 2017:94).

The financial system accelerating the economic growth of the countries accurately allocates the savings to the right investment projects. From this perspective, the development of financial system activates the growth potential in the fields of capital accumulation and technological advancement (Gökten et al., 2008:129). The financial system consists of the following factors:

- Savers supplying fund to the markets
- Investors requesting fund from the markets
- Financial instruments demanded or requested
- Auxiliary institutions
- Legal and administrative regulations

In an economy, one of the ways of increasing the savings and bridging the saving/investment gap is to apply the reforms to increase the domestic savings in the mid-term. From this perspective, especially the policies supporting the household units gain importance. For this purpose, for increasing the savings in an economy, it is very important (www.tcmb.gov.tr):

- To pay importance to the policies towards increasing the productivity, employment, competition, and consequently the income,
- To apply macro policies decreasing the economic vulnerabilities,
- To re-structure the retirement system in way supporting the savings trend,
- To encourage the regular and long-term savings,
- To develop savings instruments meeting the necessities,
- To inform the economic units about the benefits of saving and apply policies for raising awareness and increasing the financial literacy levels of households,
- To strengthen the financial markets in order to allocate the savings to the activities increasing the activities supporting the growth.

Among the purposes for accumulating wealth, the one that the individuals deem most important is the retirement period. A person working for 30-35 years would think that the inability of saving money in this period would cause certain difficulties in elderliness period. With this thought, the individuals having a good level of financial literacy would construct good financial plans for their retirement period, save more, utilize these funds better, and contribute to the decrease in poverty and request for social aids (Lusardi and Mitchell, 2011: 13).

Ensuring the coordination between the household units in order to allocate the short-term consumption to the investments in the long-term is a necessity for the sustainable economic growth of states (Lewis and Messy, 2012:20).

The financial literacy is a requirement as one of the determinants of personal and/or general saving. In the Special Report on Domestic Savings prepared by the Ministry of Development, this requirement is emphasized as follows: the financial literacy plays an important role in ensuring the economic growth and development and making it sustainable. The household should have a certain level of financial literacy for accessing the financial system and allocating the savings to the investments. In this parallel, especially after the global crisis in 2008-2009,

the need for accurate economic decisions of the individuals made the financial education more important. The financial literacy is one of the main components of the policies to be implemented in order to increase the insufficient domestic savings (Ministry of Development, 2014: 38).

In recent years, the level of savings decreased in Turkey. The reasons for this decrease can be listed as follows (Türkoğlu, 2013):

- Increasing consumption expenses
- Decreasing loan rates
- Increased public savings
- Changes in real income
- Improvement or uncertainty of economic status
- Development of social security system
- Failure in ensuring the budget balance
- Foreign capital flows
- High rate of unemployment
- Presence of grey economy
- Increase in the share of young population
- Increase in the school-age population

As in all the other fields, the education plays an important role also in ensuring the economic development. The education has a positive effect on the economic life and countries' development level, as well as providing the society with qualified individuals and labor force, accelerating the technological advancement, and supporting the total production. For this reason, the education has an important effect even on the rate of savings, which is the most important factor for the sustainable growth and development of the national economies (Kanık and Dinç, 2017:83).

Given the individual borrowing rates, it can be understood that there are important discrepancies between the earning and consuming decisions. In general, the most important problem related with the borrowing is to prefer borrowing at a higher amount when compared to the level of income. In other words, the individuals make wrong decisions about the budgeting behavior.

To put it all in simple terms, the budgeting can be defined as establishing the balance between incomes and expenditures and making financial decisions in this parallel. In fact, this concept that is easy to understand and apply is overlooked due to the economic problems arising because the individuals think only of their own benefit and do not really mind their families and environment. The financial literacy education should be given in order to ensure the effective use of incomes, which are earned under difficult conditions (Sancak and Cemirci, 2012:184).

The individuals' level of income is one of the most important parameters playing a role in gaining the saving habit. As the income level increases, the individuals' propensity to save also increases; moreover, there is a direct relationship between the educational status and saving habit of the individuals. In other words, the individuals having higher educational status more frequently prefer saving (Zengin et al., 2018:97).

The access of savers to the financial system would enlarge and diversify the deposit capacity of the banks, strengthen the fund structure of the institutions in the financial system, and grant them flexibility and continuity (Khan, 2011:4).

Encouraging the financial literacy in the developing countries would have the individuals have access to the financial products and saving instruments and contribute to the economic growth, establishing a strong financial structure, balancing the income distribution, and decreasing the poverty (OECD, 2009:2-3).

FINANCIAL LITERACY AND ENTREPRENEURSHIP

The entrepreneurship has become subject gaining gradually more importance since it is the driving force for the economic, politic, and social efficiency of the countries because of the increasing effect of the globalization (Bilginer, 2018:30). The enterprises defined as small-scale ones constitute the majority of companies operating throughout the world and they have significant contributions to both employment and national income (Messy and Monticone, 2016:12).

Creating new business ideas and supporting them is of vital importance for economic development. However, these activities should be carried out carefully and accurately. Especially in our country, it can be seen that the economic lives of the small-scale enterprises are short and they disappear before creating an economic benefit.

As in any field, education is very important also for the entrepreneurship. The investors trying to establish an economic unit might have sufficient physical infrastructure and their own economic sources (or they might receive support from the state) but they should receive the necessary and qualified information about the accurate use of these sources. The financial literacy refers to receiving information about any subject related with finance and financing. Thus, the entrepreneurs, majority of which consists of young and inexperienced individuals, must have this awareness. Thus, they would have direct effect on both the personal economy and national economy.

The first things coming to mind about the entrepreneurship are young entrepreneur and young enterprise. The entrepreneurship plays a key role in creating

employment for young individuals. Starting a new career might be very difficult for the young individuals because the innovation concept itself incorporates a risk and the individual called entrepreneur is lacking in experience and knowledge. For this reason, the most important factor to bridge their lack of knowledge and help them in analyzing the risk is the financial awareness (i.e., financial literacy).

In studies on entrepreneurship education, it has been reported that the entrepreneurship education increases the entrepreneurial activities and fulfills the functions such as economic growth and creating employment (Özdemir et al., 2016:572). Akpan et al. (2012) reported that the way of increasing the economic productivity and security and the capacity of economy is to offer entrepreneurship education and it becomes a necessity.

Table 1 The Sufficiency Status of Turkey's Entrepreneurship Infrastructure

Indicators of Entrepreneurship Infrastructure	Score (1=Most insufficient, 9= Most sufficient)
Efficiency of Funding the Entrepreneurs	3.8
Government Policies: Support and Attention	4.4
Government Policies: Tax and Bureaucracy	3.4
Government's Entrepreneurship Programs	4.1
Entrepreneurship Education in School Period	2.2
Entrepreneurship Education after the School Period	5.2
R&D Transfer	4.2
Commercial and Legal Infrastructure	5.1
Domestic Market Dynamics	5.8
Domestic Market Loads or Entry Regulations	3.9
Physical Infrastructure	6.5
Cultural and Social Norms	5.3

Source: Kelley, Singer, and Herrington, 2016

In the table shown above, the level of competence related with the entrepreneurship in Turkey can be seen. Given the table, it can be seen that the most insufficient aspect related with the infrastructural competence is the entrepreneurship education given during the school period. It can be seen that the financial literacy or entrepreneurship educations given in Turkey are provided only in the university period. Besides that, only few private schools (secondary school or high school) offer such educations. Moreover, the Small and Medium Enterprises Development Organization (KOSGEB) provides the potential entrepreneurs with education on gaining skills and founding and managing a company. In addition

to the educations offered by KOSGEB, a supervisory mechanism that will review the achievements of the enterprises and their economic decisions after the education is necessary because most of these enterprises are founded by making use of grants and supports of the state and thus the entrepreneur does not feel himself/herself obliged to take the right steps.

The entrepreneurs have different difficulties especially because of the lack of knowledge and experience. Some of these difficulties are the difficulty in accessing to the funds and the lack of entrepreneurship and administrative skills such as communication, negotiation, innovation, and problem solving (Karataş, 2017:48). The lack of financial knowledge and esteem arising from the low level of financial literacy might hinder the access to the financial system and products (OECD INFE, 2015:13).

The researchers have reported that, when compared to the incumbent firms, the new enterprises have higher rates of failure (Baum et al., 2000:267). Regardless of the importance of new enterprises, the 5-year survival rate of new interventions is less than 50% (Fritsch and Weyh, 2006) and only 10% of them survive the market for 10 years (Timmons and Spinelli, 2004:268).

One of the reasons for the failure of that many new enterprises might be the insufficient financial literacy. Besides the insufficient financial literacy level, also the insufficient business intelligence negatively affects the entrepreneurial activities (Bosma and Harding, 2006). Thus, the financial management skill is considered to be one of the fundamental administrative skills in creating and developing the new areas for enterprises (Timmons and Spinelli, 2004: 269).

Many researchers accept that, regardless of their ages, the entrepreneurs routinely play role in decision-making processes related with access to and allocation/use of sources (Wise, 2013:30). Such activities generally have financial results and, thus, the entrepreneurs must be financially literate in order to be efficient (Oseifuah, 2010). According to Oseifuah (2010), the financial literacy of young entrepreneurs positively contributes to their entrepreneurial skills.

Kotze and Smit (2008) stated that, when the individuals have no knowledge about their financial status, the management of the new enterprises would be unsuccessful from the financial aspect and it would cause the decrease in the number of new enterprises and increase in potential failure of SMEs.

According to the data obtained from SME Strategy Action Plan for 2015-2018 (www.kobi.org.tr)

In Turkey, SMEs constitute;

- 99.9% of the total number of enterprises
- 65.5% of total good and service purchases,
- 56.2% of total production,
- 53.2% of total gross investment in tangible assets,
- 75.8% of total employment,
- 55% of total added value,
- 65.5% of total sales,
- 39.9% of total import,
- 50% of total investments,
- 59.2% of total export, and
- 26% of total credits in banking sector.

Given the data shown above, it can be easily seen that the SMEs have a significant effect on the national economy in Turkey. Considering only from the aspect of SMEs' share in total investments, it should be stated that the management and administrative and financial decisions should be taken into consideration for both individual enterprises and national economy. Every financial decision to be made about administration and management requires financial knowledge and experience.

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