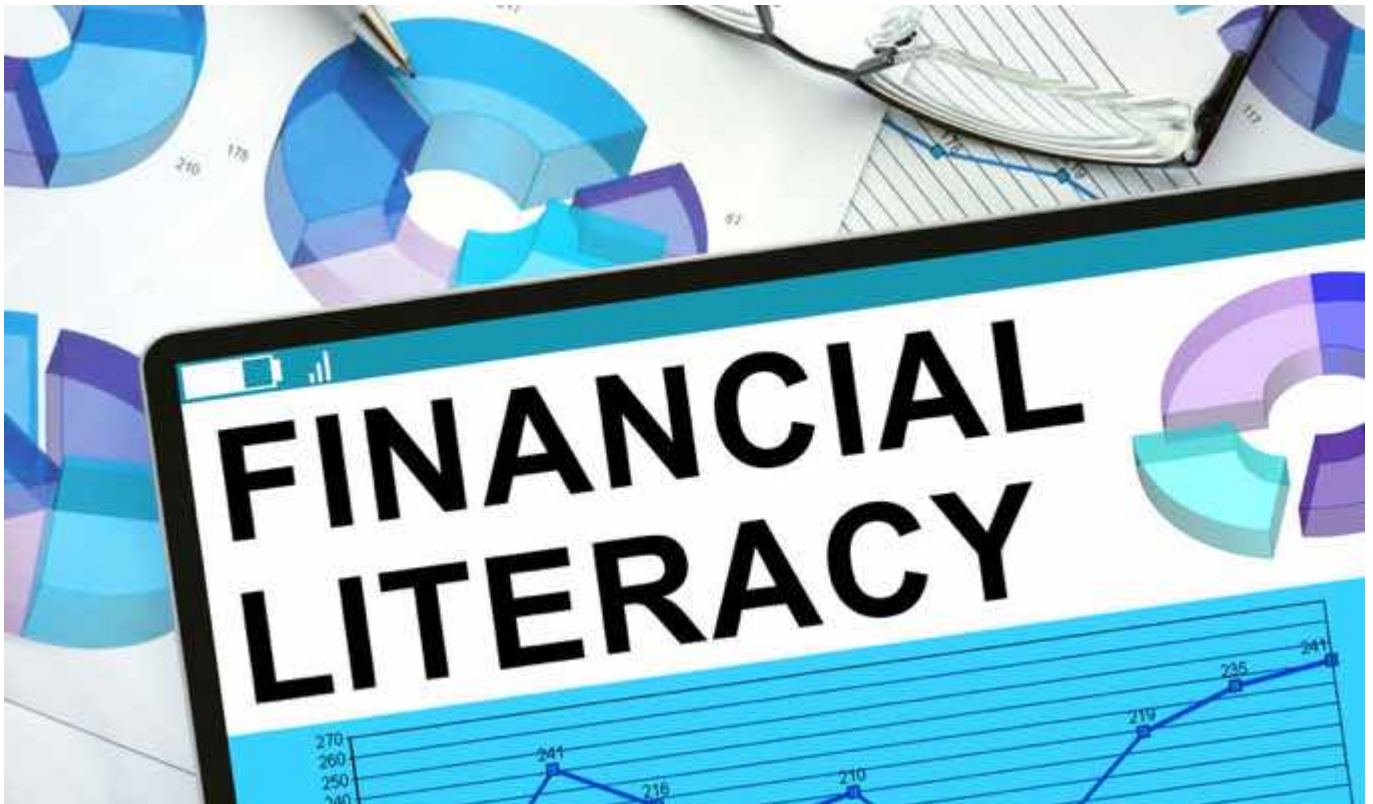


# April is Financial Literacy Month



The month of April is dedicated to the promotion of financial literacy in the US each year. The federal and state governments, many schools, businesses, and a multitude of nonprofit organizations get in on the initiative. The effort aims to sensitize the general public about handling money wisely and making financial decisions in a more informed manner.

## **Origin and objectives**

The National Endowment for Financial Education in the US initiated something called the Youth Financial Literacy Day in 2000. The idea was to promote healthy financial habits among young people. The following year the United States Senate decided that April would be observed as the Financial Literacy for Youth Month. Another year later they opted to drop the 'youth' connotation, and renamed it the National Financial

Literacy Month. They recognized that the entire nation needed more financial literacy. Interestingly several states already had this initiative going locally before it was nationalized.

### **The case for financial literacy**

To best understand the value of this term, consider some of the effects of its absence. Economies of countries rely heavily on the collective purchasing power of citizens. Many governments allow private companies to issue artificial credit. This credit artificially inflates the purchasing power of citizens. The most common example is the use of credit cards. People who do not possess adequate financial literacy are prone to make poor decisions. Without the availability of artificial credit people would be unable to overshoot their true financial resources. The collective demand in the economy would represent the actual spending power. However, virtual money makes people susceptible to overshoot their fiscal means. Artificial credit without adequate literacy sharply increases the propensity for making poor decisions. The widespread and cumulative effects of poor financial decisions by millions of citizens add up. In past years millions of people have defaulted on credit repayments. Banks have collapsed. Financial companies have received government bailouts in the billions, which were funded by taxes. These incidents gave evidence of a widespread shortage of financial literacy.

### **Financial literacy and economic crises**

Another effect of the lack of financial literacy is uninformed investing. In the years preceding the 2008 financial crisis many banks created highly imaginative financial instruments and sold them to the general public. Due to the lack of literacy, investment in such instruments was promoted primarily by speculation. Private investors without sound financial knowledge invested in unsound financial instruments en masse. Eventually the speculative bubble burst. Millions

lost their lives' savings. Major corporations went bankrupt. The economy nearly suffered another depression. Many of these negative outcomes could be mitigated with a more financially literate public.

### **The role of regulation**

In the interest of free markets some countries do not impose sufficient government controls on credit issuing companies. This makes it imperative to educate citizens. In an environment where people consume first and pay later, it is important that they understand the consequences of their actions. In the financial investment domain as well, regulatory checks certainly play an important part. However, public awareness is the other, equally important aspect of crisis prevention. An informed public is less likely to participate in runaway speculation and blind investing.

### **Financial literacy and personal finance**

The top three issues in focus during the financial literacy effort are credit management, savings, and home ownership. These are all important aspects of personal finance. They have long term effects on the quality of life. Personal finance requires careful planning, long term goal-setting, cognition of opportunity costs, and deliberate execution. Above all it requires financial literacy. Being financially literate need not be complex or difficult. For example immigrant workers regularly send remittances to support their families. Remittance is a cost, which can be minimized. Migrants compare multiple services to [transfer money](#), and choose the one which best meets their needs. Obtaining information and making informed decisions is at the core of financial literacy.

### **National importance**

Personal finance has a bearing on national productivity, investments, social security, taxation, labor participation, and many other aspects. Yet, most countries offer no formal or

mandatory education in personal finance. Financial literacy must be considered an issue of national importance in every country. This has been recognized in the US. The head of the United States Department of the Treasury now heads the Financial Literacy and Education Commission. In recent years other countries are starting to recognize the importance of this idea. Canada now observes Financial Literacy Month, although theirs is in November. Regardless of month, it is the need to make informed fiscal decisions which we should hold in high importance.

**About the author:**

Hemant G is a contributing writer at [Sparkwebs LLC, a Digital and Content Marketing Agency](#). When he's not writing, he loves to travel, scuba dive, and watch documentaries.