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Editorial: Social Science Education in the Financial Risk Society

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

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

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

A similar sense of basic confidence was also characteristic for the economics profession. In the eyes of leading economists, the economic glitch of the 1970s was followed by a period called *"the great moderation"* (a substantial decline in macroeconomic volatility), as Ben Bernanke (2004), now chairman of the US Federal Reserve, entitled his speech before the American Eastern Economic Association. Just one year earlier, Robert Lucas, an economic Nobel Prize Winner highly esteemed in his profession, declared[1] that the *"central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades"* (Lucas 2003). Other, more sceptical economists who dared to make their colleagues aware of the large risks hidden in the US financial sector (like Raghuram Rajan did with a now-famous presentation in August 2005), received a stern rebuke: *"I felt like an early Christian who had wandered into a convention of half-starved lions"* (Rajan 2010, 3).

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

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

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

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

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

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

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

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

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

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

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

How do pupils view the financial crisis and its causes and how do these cognitive conceptions relate to scientific conceptions? What are possible "misconceptions" and how should civic / economic education deal with these?

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

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

Walter Ötsch and *Jakob Kappeler* develop the thesis that today's economic education is anything but helpful in supporting students to understand the economy in general and the financial crisis in particular. They see the reason for this failure of economic education in its narrow focus on just one theoretical paradigm, i.e. neoclassical economics. This theoretical approach is said to be completely inadequate to explain the crisis, because of its underlying cognitive theory (naïve representationalism) and its overemphasis on the self-regulating capacities of the market. Both of these core assumptions of neoclassical economics were invalidated (once again) by the financial crisis. But despite the shipwreck of neoclassical theory, Ötsch and Kappeler show, academic economists and their textbooks still cling to this theoretical approach. In contrast, the authors recommend a different approach to teaching economics, which is based on theoretical pluralism and problem-centered learning.

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

The article of *Udo Reifner* and *Anne Schelhowe* addresses the issue of financial education. This is an important aspect of the financial crisis because of at least two reasons. Firstly, a pivotal cause of the crisis was that imperfect rationality led many people especially in the US and the UK to take out loans of all kinds which they could not repay later (Bar-Gill 2009). Secondly, an unfortunate consequence of the crisis was that banks persuaded unexperienced, confiding customers to invest (and hold) their money in rather risky Lehman bonds, which became worthless in the wake of the bankruptcy. As a consequence, the authors argue that the task of financial education should be to enhance the ability of citizens to make competent choices and to promote self-confident consumer behavior in the financial market. They present the variety of approaches and projects in Germany which are concerned with this issue. Finally, they depict their own two projects of financial education in schools, which put special emphasis on learner-oriented case studies and on systematic cooperation with banks.

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

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

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