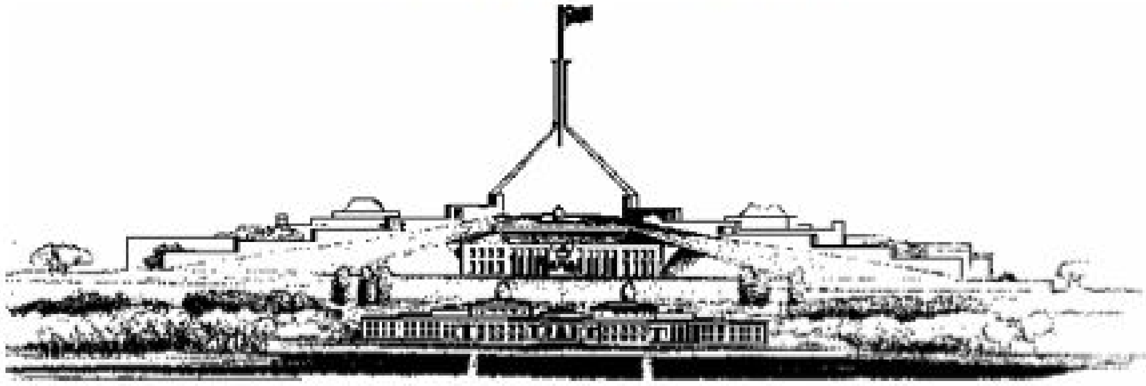
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



THE SENATE

MATTERS OF PUBLIC INTEREST

Financial Literacy

SPEECH

Wednesday, 15 August 2007

BY AUTHORITY OF THE SENATE

SPEECH

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Senator BOYCE (Queensland) (12.45 pm)—Today the matter of public interest I want to raise is financial literacy and what our government is doing on this issue. We have had a number of scare campaigns and scary stories told in the past few days in relation to the increase in interest rates. An increase in interest rates is not something that anybody wants, but the increase we had recently was far less than anything that was seen under previous Labor governments.

We are lucky to be living in a growing economy. The Howard government has contributed to record levels of prosperity and employment. This, coupled with high wages and low inflation, means that the vast majority of people are well and truly better off today than they have ever been. In fact, during the government's tenure, more and more Australians have had the ability to aspire to home ownership and to the many other financial rewards that come from much improved employment. With greater access to money, however, it is vitally important that our young people are aware of their financial obligations and responsibilities. We do see some reluctance amongst our young people to embrace financial literacy as an important part of their knowledge and their life skills.

Over the past five years there have been a number of Australian youth surveys undertaken by various groups, such as Mission Australia and the Australian Institute of Family Studies. Not one of these surveys has seen financial literacy or financial planning recognised by young people as being an important part of their education process. The top problems identified by respondents centred mostly on drugs and alcohol, education, mental health and suicide issues. In one survey saving and investing came in at number eight on the list—obviously not a high priority. Yet when you look back to those other issues, mental health and suicide, it is often financial problems that cause people to experience those situations. So, whilst the other things, such as drugs and alcohol, that are concerning young people are vitally important, I think they must also be encouraged not to overlook the importance of financial literacy. I would like to highlight current government programs designed to assist with this.

The most vulnerable to poor financial decisions within our community are in fact those in the 16- to 20-year age group, around 40 per cent of them. At this age it is young women who are more likely to get into financial trouble, but overall, in the general population, it is more men than women—55 per cent—who have financial problems. For the 16- to 20-year age group, this is a time in their lives when they are going out to get their first job and their first car, and they are probably on their fourth or fifth mobile phone, which are getting more and more expensive as they go. People at that age tend to earn a fairly basic standard wage because they are studying or training. This is also a time when they look to enter into relationships and perhaps to household formation. They can very easily be overwhelmed by borrowings, contracts, interest payments, budgeting and myriad other financial decisions.

Poor financial decision making contributes to much higher bankruptcies—84 per cent of bankruptcies that occurred in the June quarter this year were personal bankruptcies; they were not business bankruptcies. That leaves us with 16 per cent that were business bankruptcies.

The Australian Securities and Investments Commission states that scams and prospectus scams—cold calls—have taken nearly a billion dollars from the Australian public over the last three years. We all know about the Nigerian scams, the hoax emails, the pyramid schemes and the like. It is not just unsophisticated younger people who unfortunately lose large amounts of money with these scams. Scammers are becoming very high tech and we need to be sure that we are giving our young people the armour to resist this by encouraging financial literacy skills.

Forty per cent of all bankruptcies in Australia are for debts of less than $20,000. There are some horrific stories told of young people going bankrupt for debts of less than $2,000 because they simply did not know how else to deal with the issues that they had created with quite minor debts. Of the people who go bankrupt for debts of under $20,000, 12 per cent have been previously bankrupt. And the majority of those people are under 40 years of age. Clearly, if we can get some education and some literacy on financial matters we can save an awful lot of heartbreak. Twenty-six per cent of people in that age bracket say that excessive use of credit was the main reason that they went bankrupt. Again, this highlights the need for financial education and financial awareness, especially amongst our young people. If we can teach this knowledge in youth we can give the foundation for people to make a solid financial investment for their lives.

When you consider the stigma that a bankruptcy can bring to a person, the time it takes to recover from a bankruptcy and the fact that it will stay on your financial record for anything up to eight years, there is a huge issue. Bankruptcy can limit employment and business opportunities and it damages the credit rating. So it is appalling that we see many young people are going into bankruptcy over mobile phone bills and credit card debt of very small amounts—some for as little as $2,000 or so. Remembering that 40 per cent of all bankruptcies are for amounts under $20,000, it is important that we educate people so that they do not experience these horrors.

The Commonwealth Bank in a survey it did recently suggested that improving financial literacy by even a modest amount for the least financially well-off Australians would contribute $6 billion per year to GDP over the next 10 years and create 16,000 new jobs. This would mean there would be less need for welfare, there would be increased economic opportunities and there would be a bolstering of national savings—not to mention the fact that there would be more people in more comfortable and happier circumstances than those faced by people worrying continually about debt.

The Consumer and Financial Literacy Taskforce, which made recommendations to the government in 2004, modelled the results of bad decision making over the course of a person's life and discovered that a person on a salary of $36,000 per annum stood to miss out on $790,000, in 2004 figures, in lost wealth over the course of their life—enough to buy two houses even in the current climate. The government has responded to this report with a number of products and services, targeted at both younger and older members of the community. According to the Consumer and Financial Literacy Taskforce, there were more than 700 resources available at the time, but making people aware of those resources was an issue. So we looked at how we can encourage people to utilise those resources. I would encourage all young people to check out the resources that are available on websites such as FIDO and Centrelink. The employment by Centrelink of financial information officers is a major advance and has had some very good effects.

Housing affordability has, of course, been one of the major issues of this week. We need to ensure that our younger consumers, as they develop the ability to buy a house, know everything there is to know about low-doc loans, options to buy schemes and the 110 per cent mortgage loans that are often made available to those who can least afford them and least understand them. A savvy consumer would be able to determine whether they could meet their repayments, but people with financial literacy problems have some difficulty making the right decision—and this can lead to financial distress down the track.

Our government has well and truly contributed to strong economic growth, higher wages and low interest rates. And it is in these prosperous times that we need to encourage our young people to be more aware of where their money is being spent, how it is being spent and what the pitfalls are. People have ready access to more money because the economy is strong, and we must be confident that they can be confident in investing and spending that money. People of an older generation probably put their pay rises and bonuses towards their mortgage or towards education funds, but today we see a plethora of credit options giving consumers opportunities to buy now and pay later on almost every conceivable thing. I would never suggest that people should not have the opportunity to choose how they spend their money, but we need to encourage informed choice about how to spend money. I caution younger people to read the fine print, to get a second opinion, and to really learn and understand what the ramifications can be if they miss a payment or are unable to meet the payments over the longer term.

There is no doubt that working families are better off under a Howard government. Let me assure people that, despite the rhetoric of this week, under a Labor government there would be higher interest rates, a marked increase in bankruptcies and fewer opportunities for people to meet their debts. I recommend to all young people that they consider looking at the websites available and the information that is well-distributed through youth literature.