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The democratization of finance? Promises, outcomes and conditions

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ABSTRACT

This paper analyses the ‘democratization of finance’ or the promise that all households can make money and/or manage risk by buying appropriate financial services products. It does so by exploring the reasons for discrepancy between what is promised and what can be delivered. Our analysis starts from the economic promises and political pitches for the democratization of finance since the early 1990s and the corollary emphasis on promoting mass financial literacy. The article then identifies three key social preconditions which must be satisfied before the promise is delivered. Evidence and argument from the UK and US suggests that these conditions are not met because the context is confusing, individuals lack calculative competence and products are opaque. Under these conditions felicitous outcomes are uncertain for existing middle class savers and very unlikely for lower income groups. A concluding section relates this

analysis to the cultural economy literature and to the politics of social security versus individual responsibility.

KEYWORDS:

Financialization | financial literacy | democratization of finance | cultural economy

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Notes

1. This paper focuses on the prospects and position of a group that, in principle, has the resources and motives to make decisions about financial products as a way of illustrating some of the fundamental problems around the democratization of finance. Space limits do not allow us to discuss the implications for particular groups who may face specific problems: see, for instance, Ginn et al. (2001) on gender issues in pensions or Kempson et al. (2000) for analysis of financial exclusion and the experienced of groups such as certain ethnic minorities or single mothers.

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