

Citizenship learning activities

# Crunchtime: citizenship and the economic downturn

Post-16 Citizenship Support Programme

**LSIS** LEARNING AND SKILLS IMPROVEMENT SERVICE





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# Crunchtime: citizenship and the economic downturn

## Introduction for staff

The term 'credit crunch' has been so widely used by the media since last year that it has been added to the Oxford English Dictionary. A credit crunch occurs when banks reduce their lending to each other on a grand scale because they are uncertain how much money they have and are worried that the banks they lend to will go bust. The result is reduced availability of loans, overdrafts and mortgages to people and businesses, leading to house repossessions and bankruptcy.

Most commentators agree that the current credit crunch originated in the United States as cash-rich banks lent billions of dollars to people with poor credit ratings (so-called 'sub-prime borrowers') to buy houses. The assumption was that as house prices could only keep on rising, even if these people defaulted on their mortgages, the banks would simply repossess the house (i.e. 'foreclosure') which would be worth more than the debt. This was fine while interest rates were low, but when they started to rise, the sub-prime borrowers could not pay and simply handed in their house keys to the bank and walked away. (In the US this is possible; in the UK people still owe the difference between what they borrowed and what the house could be sold for, plus costs and interest – i.e. 'shortfall' debt). Because this happened to so many people in the US, house prices collapsed and houses were worth a lot less than the mortgage debt, so the banks lost billions of dollars. While reporting on the credit crunch the media has made frequent references to the 1929 Wall Street crash which devastated the United States' stock market and occurred near the start of a chain of events that led to a long period of economic decline in industrialised nations known as 'the Great Depression'.

However, this was not the whole story because American banks had bundled up these mortgages and sold them on to other banks as 'mortgage-backed securities'. This is what led to the spreading





of 'toxic debt' around the world's financial system. The lack of tight regulation on banks in many countries allowed bankers to pursue high profits (and bonuses for them) from these risky investments. Once high profile banks (e.g. Bear Stearns in the US) and mortgage companies (e.g. Freddie Mac and Fannie Mae) started to fold, the panic spread and there was a run in the UK on the Northern Rock building society which had also made risky loans. The general effect was that banks stopped lending to other banks.

In order to prevent 'runs' on banks (when people take out their money in cash) the government had to step in to guarantee people's money. The Bank of England lowered interest rates dramatically and taxpayers' money has been pumped in to encourage banks to continue lending. Even so the credit crunch has sparked a recession (defined technically as two successive quarters of falling national output). So the effects of the credit crunch have included a rise in business failures and empty shops on high streets (e.g. Woolworths); house repossessions and falling house prices; a general rise in unemployment, particularly among the young; and a collapse in the stock market with cuts in savings and the value of pensions. This all leads to a decline in income and wealth. The Government has had to spend and pledge billions of pounds to keep the banks afloat and able to lend, which will probably lead to a decline in future public services and/or future tax rises to pay off the massive national debt.

### **Citizenship learning opportunities**

The economic crisis will affect young people directly in terms of employment opportunities and the financial circumstances of their own families, and indirectly through future government cuts in services and higher taxes. They need to understand what has caused the crisis and what its possible impact might be on social cohesion. There have been dire warnings of nationalism, economic protectionism and xenophobia as people's standard of living declines and they have less economic security. Already there have been calls for 'British jobs for British workers', and strikes aimed at employers who bring in foreign workers on contracts. If young people do not understand the global nature of the current crisis, they could be tempted to take a simplistic view of solutions and find scapegoats to blame. Also, the Financial Services Authority has identified three key issues

that consumers need to be aware of in this time of economic downturn which can also be linked to citizenship education: 1) *knowing your rights and responsibilities in financial matters*, 2) *being cautious of offers that seem too good to be true*, and 3) *knowing where to turn for help*.

Investigating and thinking critically about these issues and taking action to raise awareness or campaign about them could form the basis of some citizenship learning. These materials are aimed at level 2 and above. They attempt to provide an explanation of the causes of the crisis and they suggest some activities which examine the effects and possible future threats facing our society.

### Suggestions for using the materials

- **From boom to bust** (pages 6 and 7) aims to explain the origins of the credit crunch. There are several excellent short videos which could be used in conjunction with these pages. The YouTube links are provided in the Resources section (page 14). Once the learners understand the causes of the crunch, they could use other media to explain this to others.
- **Impacts of the Crunch 1 – In a town centre near you** (page 8) provides a questionnaire that can be used in a local survey, so that young people can see the impact of the economic crisis in their own high street and hear what local people are doing to cope with it. They could make a presentation on their findings.
- **Impacts of the Crunch 2 – The ripples of recession** (page 9) builds on the previous activity and looks at the kinds of decisions that people take when they have less money to spend. Young people should fill in the empty bubbles with things they found out in their survey, and then discuss what the national impact is likely to be when lots of people make similar decisions.
- **Impacts of the Crunch 3 – Global impacts** (page 10) poses some of the worst effects of the global economic crisis. You could copy and cut up the cards, and give a set to each small group. They would discuss which of the potential impacts would be most likely to happen, selecting three or four, and then decide what action could be taken by governments and individuals to prevent them.
- **Responses 1 – Government action** (page 11) identifies two sorts of action – things that our government could do at home to help people badly affected by the crisis, and things that the most powerful governments in the world need to do globally. The chart requires learners to decide on the advantages and disadvantages of actions that the government could take and, in some cases, has taken. They could add suggestions to the list. This page also summarises the global action that was discussed at the G20 summit in London (April 2009). Young people could find out more about the disagreements and discuss whether what was finally agreed would work.
- **Responses 2 – Protest and other action** (page 12) briefly describes three kinds of action that people can take: protest, industrial action and through support of social enterprise. Young people should research each of these options and consider the strengths and weaknesses of each strategy.
- **Responses 3 – Credit crunch songs** (page 13) suggests that young people listen to some of the songs that appear on YouTube and review them. The songs are often amusing but also very informative. They could vote on which song explains the credit crunch most clearly and then devise a song of their own.

# From boom to bust

## Once upon a time in America and Britain there was boom time...

The economy steadily expanded and companies made large profits. The price of their shares on the stock market kept on rising which pleased investors and pension funds. There was low unemployment and interest rates were kept down, which made borrowing easy and affordable.

Taxes too were low and the government was keen to encourage people to buy their own homes.

There was little regulation for banks which were making huge profits and giving large bonuses to their senior staff. The banks had billions of dollars to lend and were keen to make loans even to people who were high risk.

In America, the banks gave mortgages to people called 'sub-prime borrowers'. These were people with **No Income**, **No Jobs** and no **Assets** who were persuaded to take on these 'Ninja mortgages'. Those with poor credit ratings were given mortgages often worth more than the houses they wanted to buy.

For a time house prices kept rising, with demand from sub-prime borrowers still increasing. The banks thought they couldn't lose as they didn't consider that prices could fall.

In America the banks parcelled up these sub-prime mortgages into new types of financial packages and sold these securities to other banks all over the world.

The banks buying these securities thought they were a safe investment because they were backed by real houses, the price of which they thought was bound to rise.



# From boom to bust

## Then everything went wrong...

The housing bubble burst!

Interest rates went up following the drop in house prices and people couldn't keep up with their mortgage payments. In the USA sub-prime borrowers handed in their keys as banks foreclosed (repossessed) their houses.



With a flood of repossessed houses, prices dropped lower leaving many people in negative equity which meant their houses were worth less than their mortgages.

The banks lost billions of dollars or pounds as people defaulted on their mortgages. The mortgage-backed securities which the banks had bought turned into 'toxic debt' that couldn't be repaid and this poisoned the global financial system.

The banks did not want to lend to other banks as these were suddenly risky. Some banks started to declare bankruptcy. There was a risk of a run on banks as people panicked and tried to get out their cash. But bankers still awarded themselves big bonuses.

As people felt less wealthy they spent less on their houses, eating out and holidays. Businesses dependent on the housing market, for example in building and in making and selling 'white goods', started to fail. And the banks were unwilling to lend them money to continue in business.

People were put out of work and incomes fell.

The government pledged billions to protect people's money in banks and spends billions more to encourage banks to lend to each other, to businesses and households. It leads to a call for more regulation of banks.

## Crunchtime!

- *The stock market crashes and investors and pension funds lose billions*
- *Businesses fail*
- *Unemployment rises and youth employment collapses*
- *Confidence in banks and lending collapses*
- *The government debt rises massively as tax income falls and banks are bailed out.*

- Watch the visual presentation on Credit Crunch Explained ('Thisishomevideo' on [www.youtube.com](http://www.youtube.com)).
- What lessons would you draw from the causes and consequences of the credit crunch?
- Summarise the causes and consequences of the economic crisis using a different medium – PowerPoint, art, photography, drama or video.

## Impacts of the Crunch 1

# In a town centre near you

What are the visible signs of the economic crisis in your own town centre?

Visit your nearest high street and count the number of empty shops and offices. Note the kinds of businesses they had been.

Carry out a survey of people in the high street, using the following questionnaire. Analyse the results of all the interviews and make a display or PowerPoint presentation of your findings about the impact of the economic crisis in your area.



***We are carrying out a survey to find out how people in our area are coping with the current economic crisis. Would you mind answering a few questions?***

1. What do you think have been the main effects of the 'credit crunch'?

2. Which shops and businesses that you have used in the past have closed down?

3. Have you changed your behaviour in relation to any of the following, and if so, how?

a) Shopping for food

b) Shopping for clothes and shoes

c) Shopping for household items

d) Home improvements

e) Visits to the cinema, theatre, concerts

f) Eating out

g) Holidays

h) Visits to the hairdresser

i) Donations to charity shops

j) Using a car

k) Dry cleaning clothes and repairing shoes

l) Moving house

Male

Female

Age: under 21

22–30

31–50

51–60

over 60

## Impacts of the Crunch 2

# The ripples of recession

Read the following quotes and then fill in the two blank bubbles with other decisions that people might make during a recession. You could think about things said by the people you interviewed. What might happen if lots of people made these decisions?

“We had planned to move house because we need the extra space as our family has grown. We think we’ll stay put and try to borrow money for a loft extension instead.”

“We used to eat out every Friday to wind down at the end of the week. Now we often have a take-away instead.”

“I deal in divorce law and mediation. We are busy because the impact of the credit crunch does put a strain on relationships.”

“I like to go somewhere warm in Europe for our annual holiday, but this year we are going to the Lake District because of the weakness of the pound against the Euro.”

## Impacts of the Crunch 3

# Global impacts

The world is entering an uncertain period as governments, businesses and people around the globe come to terms with the new reality resulting from the economic crisis. The possible impacts are listed below. Some of these things happened at the start of the 20th Century when the world experienced a similar crisis which led to World War II.

- Which of these possible impacts are most likely in the next few months and years?
- Which are least likely?
- What action can governments take to prevent some of these things from happening?
- What action should our government take?
- What can we do to make our voice heard?



**A.** Democracy is under threat as the military take over to maintain order in many poorer countries where people are starving.

**B.** A generation of young people leave schools, colleges and universities with little of chance of getting jobs to match their education and qualifications.

**C.** America raises taxes on imported goods (tariff barriers) to protect American companies and jobs. Other countries do the same and world trade is reduced.

**D.** In western countries, taxes rise to the high levels of the past and public services are cut back as governments struggle to reduce the burden of debt.

**E.** Mass unemployment causes social unrest and there is a rise in crime rates including theft and violent crime.

**F.** Whole countries are declared bankrupt and governments are unable to pay public service workers.

**G.** Inflation reaches high levels as some governments print money so they can pay for public services.

**H.** Global warming continues to accelerate as governments abandon targets to reduce emissions on the grounds of their high cost.

**I.** Nationalist parties come to power in some countries, and they prevent the movement of workers into their countries, overturning international agreements.

**J.** There is an increase in racism and xenophobia as a result of high unemployment and the rise of nationalist parties.

## Responses 1

# Government action

### Action at home

The leaders of all the countries in the world have to deal with the impact of the economic crisis. People expect their own governments to try to fix the problems arising from the economic crisis. Here are some actions that our government could take. Fill in the blanks on the chart:

Possible actions	Advantages	Disadvantages
Buy up 'toxic debts' from banks using taxpayers' money and take a share of ownership in these banks		Costs the country huge amounts and increases national debt
Reduce interest rates		Brings down the value of people's savings
Allow banks access to money at favourable rates	Helps banks to start lending again	
Set up a nationalised bank in the Post Office		
Set up special schemes to provide grants of money to community companies (see 'Responses 2' sheet)		
Provide loans to large businesses that employ a lot of people, e.g. the car industry		
Raise taxes on imported goods that compete with our industries in order to raise their prices		'Protectionist' measure that harms world trade
Support housing schemes that allow people to rent their homes when they cannot pay their mortgage	Reduces homelessness	

### Global action

The leaders of the most powerful countries are also expected to sort out the problems that caused the credit crunch and the global economic crisis, and to take action to put things right.

The leaders of the countries with the strongest economies are called G20 and they were all called to a summit meeting in London, 1–2 April 2009.

There were three items on the agenda:

- The need to fix the global economy by supporting the banking system and pumping money into projects that provide employment (called a 'fiscal stimulus')
- The need to tighten the regulations on the financial sector so that reckless lending and investment can never happen again
- The need for the richer countries to put money into the International Monetary Fund (IMF) so that the developing countries which rely on its support can continue to produce and import goods, and repay debts.

**Find out what they finally agreed to.**

\* G20 includes the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States. The 20th member is the European Union, which is represented by the rotating Council presidency and the European Central Bank.

## Responses 2

# Protest and other action

When the global economy fails in such a dramatic fashion, most people feel helpless. As a result of the activities and decisions of a very few people, houses lose value, workers lose their jobs, firms go bankrupt and savings are reduced. The ripples affect everyone, but the poorest in the world suffer most. It is difficult to imagine what individuals can do to change anything, but here are some of the options.

Research each of these strategies and discuss their strengths and weaknesses.

### Protest

Many different groups of protesters joined in the demonstrations during the G20 summit in London. Although there were different aims for the various groups involved, most wanted to express their anger at the way the present global system has caused economic and environmental problems for ordinary people in the world, particularly the poor.

There are many websites which describe the aims and tactics of the protesters (see 'Resources').



© Rosie Greenway/Getty Images

### Strikes and sit-ins

Sometimes, when workers are in danger of losing their jobs, they strike or occupy the factory in which they work as a protest. One recent example involved workers from a car-parts firm, Visteon. The protesters claimed the company's former owner and main customer, Ford, had promised redundancy contracts which they wanted to see honoured.

See <http://tinyurl.com/BBCnewsVisteon>



© Peter Muihy/AFP/Getty Images

### Community companies and social enterprise

In some communities, local people will not sit back and let pubs, post offices, shops and filling stations close down because of financial problems. In rural areas, people rely on these facilities, especially if they have no car. So local people have got together, carried out fund-raising activities and have bought back these businesses through 'community companies'. The committee runs the business co-operatively for the benefit of the local people.

See The Plunkett Foundation website for more information  
[www.plunkett.co.uk](http://www.plunkett.co.uk)



## Responses 3

# Credit crunch songs

Some people express their opinions through song. YouTube is always a good source of material on any topic, as ingenious young people have their say on important issues that affect them.

Review the following credit crunch songs on YouTube ([www.youtube.com](http://www.youtube.com)).



*The Credit Crunch Song*  
by 'Antan Debt'



*Credit Crunch Anthem*  
by 'Rebel Virals'



*Credit Crunch Explained*  
by 'Thisishomevideo'



*Credit Crunch Christmas*  
by 'Micky P Kerr'



*Credit Crunch Song*  
(Chips Chips) by 'Ben Dalby'



*My Old Man's a Banker*  
(Credit Crunch Song) by 'Jo Waite'

**Discuss each song and organise a vote in your class:**

*Which video has the best explanation of the credit crunch?*

*Which song is the funniest?*

*Which makes the most impact?*

Work in a group to create your own song about the credit crunch and how it has affected young people in Britain. Use *Get up, stand up: Citizenship through music* to help you (see 'Resources' section).

Perform the song in front of the group and then vote on the best song. Record the song and post it on YouTube and/or on your school/college site.



# Resources

## YouTube

**Thisishomevideo: The Credit Crunch Explained** is a short video that uses a series of cartoon diagrams to explain the causes of the crunch in an entertaining and simple way.

[www.youtube.com/watch?v=wGxmgwUWNr0](http://www.youtube.com/watch?v=wGxmgwUWNr0)

**Money Box 1 Credit Crunch Explained** and **Money Box 2 The Recession in High Definition**

These two short Australian TV programmes explain the credit crunch and the resulting recession.

[www.youtube.com/watch?v=z7VkpJB2WoU](http://www.youtube.com/watch?v=z7VkpJB2WoU)

[www.youtube.com/watch?v=dqpwNnidI58](http://www.youtube.com/watch?v=dqpwNnidI58)

## The Plunkett Foundation

The Plunkett Foundation supports rural communities wanting to set up and run a community-owned shop. It offers guidance through a network of community retail advisers, the website, a national office and various publications.

[www.plunkett.co.uk](http://www.plunkett.co.uk)

Rural communities fight back against the closure of local services, *Guardian* (21 March 2009)

[www.guardian.co.uk/money/2009/mar/21/rural-communities-buyout](http://www.guardian.co.uk/money/2009/mar/21/rural-communities-buyout)

## Websites of some of the G20 protesters

[www.g-20meltdown.org](http://www.g-20meltdown.org)

<http://peopleandplanet.org>

<http://climatecamp.org.uk>

## Post-16 Citizenship Support Programme

The Programme has many resources and materials to enable you to use active learning to support citizenship, including:

***More than profit: Work, social enterprise and citizenship***, QIA, 2007

A book of learning activities which addresses some of the economic aspects of citizenship, including how to set up a social enterprise.

***Tax and pensions: political battlegrounds***, in *Citizenship News*, October 2007

A Citizenship learning resource which deals with some of the citizenship issues arising from the government's role in the economy.

***Get up, stand up: Citizenship through music***, Kenneth During and James Barber, LSDA, 2005

A book of activities with enclosed CD, providing ideas and backing tracks to help young people write their own citizenship songs.

For the full range of free Post-16 Citizenship Support Programme resources go to:

[www.post16citizenship.org/publications](http://www.post16citizenship.org/publications)

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