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Need for Finance Education in School Curricula

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ABSTRACT

The school curricula in most countries do not teach finance. Various studies have shown that financial literacy in young adults as well as in older adults is far from satisfactory. People tend to make financial blunders because of this ignorance. These can have serious implications to the individuals, families as well as to the societies. There is a strong need to include finance as a subject in school curricula so that the children when growing up can take sound financial decisions. Unlike some of the school topics, finance can be one of the most relevant topics for life.

Introduction

Education systems all around the world emphasize on the learning of sciences, social sciences, mathematics, languages and the arts. While all these subjects are important, one subject has been blatantly ignored for a very long time: finance.

In general, teenagers are not well aware of basic financial concepts like savings, investments, insurance etc. This ignorance often percolates into adulthood, making the person prone to costly financial mistakes. A study in Mumbai found that newly employed youths are still not financially literate and there is a need to educate them at their graduation level. [1] In a study in the USA, financial literacy was found low in young adults; fewer than one-third of young adults possessed basic knowledge of interest rates, inflation, and risk diversification. [2]

Let's face it; all the subjects we learn in school might not have a direct relevance in our lives, but the understanding of personal finance definitely does. Knowing how to earn money isn't sufficient. The art of saving, growing and managing it is as important, even more so.

As the global financial ecosystem becomes increasingly complex with the addition of various products, the need for awareness is more than ever before. Therefore, the objective of this paper is to highlight the urgent need for introducing a finance focussed curriculum in schools.

Why are we writing this paper?

We have been studying the field of finance for quite some time now and we have observed the a lot of ignorance of the subject. We have seen people around us, people with very high IQs, falling into debt traps, lending money to 'friends' without any paperwork and then suffering gravely. A majority of the women working in the domestic help industry in India have no bank accounts, let alone the knowledge of managing one's money. [3,4]

Having read Benjamin Graham and Warren Buffett's philosophies, it is very clear that being financially literate (a goal for many) is not a difficult task. All it requires is some common sense and a willingness to learn. One of the authors (XXXXX) tried to spread this knowledge by creating videos regarding concepts such as inflation, different investment philosophies etc. on a YouTube channel targeted to young people. There could be some more resources on the internet for this target population.

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However, this informal education is not enough. There should be a change at the grass root level, that is in the education system. What is required is a very structured and formal program as a part of school curricula. If the future generations understand these concepts, they won't commit the same mistakes their parents did and would be able to make correct financial decisions.

Definition

Financial literacy is defined as; "the ability to read, analyse, manage, and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect every day financial decisions including events in the general economy".[5]

Anton Siluanov , the Minister of Finance of the Russian Federation, probably presented the essence of financial education in the best way: ``A country's economic development largely depends on its financial literacy ... Therefore, the development and introduction of financial literacy strategies is a vital element of our policy. Financial literacy has become an inalienable part of education in the 21st century" [6]

The Problem(s)

In the United States, only 56 percent of young adults aged 35 or younger are financially literate, compared to 63 percent of those aged 36 to 50. The rates are even lower for adults older than 50, and the lowest among those older than 65. [7]

In India, the figures are grim. The National Centre for Financial Education did a survey which says that only 24% of Indians are financially literate, as opposed to the global average of 33%. [8]

There are many reasons for this. The general conception of money as a taboo topic in society, is one. Often, women and children are kept away from any money matters. Failure of some of the family members in areas such as the stock market automatically means that children are taught to stay away from such concepts. All of these acts as a barrier for young children to understand the basics of finance management.

Education systems in emerging economies may have misplaced priorities. The Council for the Indian School Certificate Examinations (CISCE) is a private board that conducts examinations in India. The curriculum issued by this board is taught to students of all ages in ICSE schools. One wonders whether some of the contents taught by them are necessary. Just to cite one example, 8th grade students need to learn the different varieties of vegetation growing in Australia as part of the geography syllabus. [9] The relevance of a lot of this knowledge in real life is questionable (unless one aims to become a geography expert). We are not completely dismissive of the current education system. But we feel that some features of the curriculum should be modified and new ones may be added to make it more practical oriented and relevant to real life. Finance is one such subject. It is relevant to every single person on this planet, throughout her life, irrespective of occupation or age. Afterall education is supposed to prepare a child for his productive adult life.

Now, we first discuss the fault lines in the systems and gaps in literacy pose. The finance illiteracy can have consequences on individual level as well as on national levels.

The level of national debt as a percent of gross domestic product (GDP) in the United States has risen sharply from 54% in 1990 to 124% in 2021. It has moved above $30 trillion on Jan. 31, 2022. [10] Not just national debt, household debt too has risen gigantically, especially after the months following the Covid pandemic, reaching 15.24 trillion dollars as of the third quarter of 2021, the majority of which was home mortgages (10.44 trillion U.S.D) followed by student loan (1.58 trillion U.S.D.). [11]

This rise is particularly worrisome with respect to two aspects.

1) GDP: High household debt levels boost consumption and GDP growth in the short run, that is a one-year period. However, there is an inverse relationship between the level of household debt and the output in the long run. A 1% increase in the household debt-to-GDP ratio has found to lower output growth in the long run by 0.1% as revealed by the data of 54 countries from 1990 to 2015. [12]

It is obviously not desirable to have a slowdown in the GDP of a country.

2) Individual financial position

A rising personal debt is never a good sign. If a substantial portion of the person's income is being spent up in making interest payments, the amount left for saving, investing and even consuming is less. For example, in India, the lending ecosystem in some of the lower sections of society can be disorganised, and informal, majorly run by private moneylenders. Although they have contributed to rural credit for a long time, there have been many issues with them; as they charge exorbitant interest rates to gullible customers in exchange of little to no paperwork or identification proofs. The vast populace of people working in the unorganised sector of the economy, who need quick funds and have neither the necessary awareness nor the required identification to go to established banks, turn to these informal sources of lending. If they are unable to repay, they may lose their lands, properties, personal possessions and, in some cases, force is used for the extraction of money. In some cases, they borrow more to repay the older debts, falling into vicious debt and poverty traps which last for generations. [13, 14] A lot of financial distress, social, family issues, psychological problems, including depression and rarely suicides, and a general decline in welfare of the borrowers and their families may follow.

A large portion of this misery can be mitigated if there is basic understanding of the features of debt, of developing the habits of saving regularly, right from an early age. It is important to know that financial education is a habitual exercise, most impactful when developed properly and consistently. Breaking this chain of impoverishment and indebtedness is hard, no doubt. However, if inculcated in the youngest generation, this knowledge will equip them to fight their condition.

If we talk about the middle and upper class, their financial decisions are not solely based on the basic notion of surviving and making ends meet, unlike the first group we discussed. The problems here are that of maximising satisfaction/ welfare and increasing the disposable income (present or that in the future). Although the advent of the internet has made learning easy, there are still certain gaps that need to be filled.

Firstly, more information does not translate into more knowledge. A lot of what is taught by the self-proclaimed 'experts' on the internet is noise. Therefore, people tend to learn the wrong concepts, which is even worse than not learning anything at all. Further, the current culture of hyperconsumerism, materialism, instant gratification (which needs a lot of credit) has affected the financial health of the young generation. The rampant usage of social media (Instagram crossed 1.38 billion users just a year back) promotes herd behaviour.

Today social media sets the social and fashion trends that leads to FOMO among the youngsters. A study from the Allianz Life Insurance Company of North America, which examined social media's impact on American spending habits, found that nearly 90 percent of millennials (and 71 percent of Generation X and 54 percent of Baby Boomers) feel that social media creates a tendency to compare their own wealth or lifestyle to that of their peers. About 60 percent of millennials report feeling "inadequate" about their own life because of something they saw on social media, like flashy clothing or vacations. And, as a result, 57 percent say they parted with money they hadn't planned to spend. [15]

A huge amount of money, resources and time are spent on purchasing products/ services that offer no utility to the consumer. Coupled with the advent of instant loans and credit cards, the situation gets worse. No wonder millennials have seen a great rise in their personal debt levels. Interest payments have risen, along with a rise in the opportunity costs of that lost income (as, say, equity markets skyrocketed). In fact, millennials in the USA owe an average of $87,448 (that includes credit card debt: $4,322, student loan debt: $38,877, auto loan debt: $19,011 and personal loan debt: $12,306). [16]

Along with this, highly complex financial instruments have been steadily rising. In the early 2000s, the presence of CDOs (collateralised debt obligations), namely the subprime mortgages, and the relative ignorance of investors (and of course the mortgage sellers and credit agencies) led to a near collapse of the US economy.

Recently new online instruments have taken the imagination of the young generation. This includes digital coins and blockchains, like bitcoin and ethereum; meme coins, like dogecoin; and DeFi, or decentralized finance. Add to that meme stocks and NFTs, or nonfungible tokens. [17] A November 2021 report published by Pew Research Center showed that roughly 31% of 18-29-year-old Americans have invested in, traded, or used a cryptocurrency, compared with smaller shares of adults in older age groups. [18] In a CNBC survey last year of 750 millionaires, some 47% of millennial millionaires reported having more than 25% of their wealth in cryptocurrencies. More than a third of millennial millionaires have at least half their wealth in crypto. [19] Although the blockchain technology is extremely powerful, Warren Buffett has said he will never buy bitcoins even at $25 as it doesn't produce anything tangible. [20] Recently the governor of the India's apex bank (Reserve Bank of India) Shaktikanta Das said investors investing in crypto should keep in mind these cryptocurrencies do not have an underlying, not even a tulip. [21] Do the young investors really understand this? The rampant speculation and extreme volatility has resulted in a number of bankruptcies. [22]

Futures and options are a subcategory of the 'derivative' financial products. Though a fantastic tool for experienced traders, derivatives are often very dangerous in the hands of young inexperienced novices; Buffet called them as "weapons of mass wealth destruction". A leveraged profit potential also means the chance of a heavily leveraged loss. Luck may favour the person over a short period, but the chances of winning every time, in this random walk type scenario, are quite small. [23]

The bottom line here is that the financial environment is constantly changing. It is very easy, therefore, to get lost and end up in a dangerous situation. To avoid, or rather mitigate this, a strong fundamental framework of good money habits and strong core principles should be established. This is only possible if all this information is taught to the learners at an early age. After all, we learn our best when we are young.

The progress made so far some countries have taken steps to address this situation by introducing financial education in schools. In Denmark, financial education is mandatory for 7th through 9th grade students. Danish adolescents participate in an annual event called Global Money Week, where financial professionals come and speak to local schools for children ages 13 to 15 years, organized by Finance Denmark and the Danish Union of Teachers of Mathematics. [24] Denmark is tied for the number one spot with Norway and Sweden, with a whopping 71% financial literacy. [25]

The Swedish Savings Bank Association started a campaign to promote financial literacy in schools in 1901 ! Today, students are taught financial concepts, numeracy, and life skills such as how to save for a pension and how to buy a house. [25]

Israel has a 68% average financial literacy. They educate their high schoolers with "Financial Education Month in the School System," introducing financial concepts such as: banking, investment and general economics, in partnership between the Education Ministry and the Bank of Israel. [25]

Australia has included financial literacy in primary and secondary education. According to the Organization for Economic Cooperation and Development (OECD), Australian students score above the average of the top 10 financially literate countries. 79% of 15-year-old students in Australia have a bank account [25]

Other countries like the United Kingdom, Canada, and the United States have also recently introduced these measures.

It should be noted that these developments are happening in developed countries. The developing countries still have to catch up.

What is important?

Financial literacy should not be taught like most other subjects are taught in school. The current teaching methodologies may seem outdated and punishing to some students. If kids start hating finance because if it is taught in the usual dull and drab way, they may stay away from it even in the future. It should be taught the way parents teach manners, habits, and life skills to their children. The focus should be on the practical aspects, and not so much on the theory and grades.. A simultaneous application should be undertaken both in schools and at home. Experience from countries like Denmark and Australia should be taken into account.
In a recent paper, Fabris and Luburić have given some guidance on how to develop a national programme for developing financial literacy of youth and children and its implementation. [25]

Conclusions

It is clear that the lack of financial knowledge can create huge problems for individuals as well as for societies. There is a strong need to introduce finance in the school curricula so that children can get practical knowledge. This knowledge will be critical to them in making sensible money decisions during their adulthood. We feel that we have successfully attempted the question of 'why' while the questions of 'what and how' will be addressed separately.

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