2014

Proposed National Standards for Financial Literacy: What's In? What's Out?

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Social Education 78(2), pp 77–79

Proposed National Standards for Financial Literacy: **What's In? What's Out?**

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The issue of financial literacy has received increased attention in recent years. The financial crisis that began in 2008 drew attention to many problems in the U.S. financial system, including the fact that many households had taken on excessive debt, and lenders had engaged in questionable loan practices. Debate ensued about the need for systemic fixes, such as increased financial regulations and oversight. In the meantime, many groups have leapt into the breach with advice focused on the individual. In March 2013, the Council for Economic Education (CEE), a corporate-supported non-profit organization, released a set of National Standards for Financial Literacy for K-12 education, which can be accessed online.[1] Although voluntary, these Standards will have a strong influence on curriculum through individual state standards, and likely will also shape the economics and personal finance content that supports the national Common Core Standards Initiative.[2] How should educators use the National Standards for Financial Literacy?

According to the Council for Economic Education's latest *Survey of the States*, in 1998, only one U.S. state required a high school course in personal finance in order to graduate; by 2014, the number was 18.[3] Nearly all states now include personal finance content somewhere in their curriculum. This marks the first time that the CEE has weighed in on personal finance standards, though economists have long professed "the interdependence of economic and personal finance education," or advocated topics and skills necessary for young adults.[4] The CEE released recommended *Voluntary National Content Standards in Economics* in 1997, and a revised version of these standards in 2010,[5] and these standards have profoundly influenced state and local education policy. For example, using data from the National Center for Education Statistics, Paul Grimes reports that nearly one-half (49.2 percent) of high school graduates earned credit in economics in 2000. Using the CEE's 2011 *Survey of the States* results indicating that 21 states mandate a high school economics course, Grimes projects that more than 60 percent of students earned high school credit in economics.[6] While the new personal finance standards, like the previous economics education standards, are voluntary, they, too, are likely to shape state mandates and curricula.[7]

The CEE standards are designed to bring "an economic point of view" to financial literacy. Previous standards, such as those issued by the Jump$tart Coalition for Personal Financial Literacy,[8] have had a less academic focus.[9] The new CEE standards were drafted primarily by university economists with input from K-12 teachers and representatives from Federal Reserve Banks. They emphasize the benefits, for the individual and society, of economic decision making, which is defined in the standards as rational choice making by individuals who carefully weigh the costs and benefits of their actions. The CEE document includes six standards, which are further elaborated through sets of specific benchmarks for student knowledge delineated for grades 4, 8, and 12. The six major topics are:

I. Earning Income
II. Buying Goods and Services
III. Saving
IV. Using Credit
V. Financial Investing
VI. Protecting and Insuring

To provide an example of what some of these topics entail, Standard II encourages the careful evaluation of information about consumer goods before making purchases. Standard IV seeks to counsel against taking on excessive credit card debt. Standard V introduces students to concepts that affect the return on investments, e.g., inflation and the diversification of assets.

We applaud the efforts of educators, advocates, and policymakers to draft national standards in personal finance. The standards as published are, however, necessary but not sufficient for financial education. The architects of the standards focus on the choices facing individuals. We believe that financial education requires a broader examination of the forces that shape and constrain these choices. In addition to the obvious market forces that influence these choices, we believe that financial education should also deal with the extensive role of governments, unpaid household labor, and non-profit institutions in the economic and financial lives of the population of the United States.

In this article, we will present the six different financial standards, along with recommendations for teaching about their wider context.

Standard I, Earning Income. The benchmarks emphasize choice among different kinds of careers and describe income as the direct outcome of choices individuals make. "Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills."[10]

Additional Instruction. We recommend an examination of the way in which institutions shape incomes through variation in school quality, the relative power possessed by employers, the role of discrimination against members of specific social groups, or policies that combat (or fail to combat) unemployment. Teachers should point out that there is a role for society—that is, for citizens acting as collective groups—to undergird households through opportunities for public education, union activity, minimum wages, social welfare policy, and employment protections.

Standard II, **Buying Goods and Services**. This Standard focuses on the fact that "people choose to buy some goods and services and not buy others."[11] What to consume is presented as an issue for the individual, but determinants of the overall level of consumption are unexplored. Choices at the market/non-market margin—for example, should a family buy childcare services, or try to address these needs using shiftwork or care by relatives?—are not mentioned.

Additional Instruction. We recommend supplementing this standard with an examination of influences on consumer demand, both for particular products and regarding the overall level of consumption. This could lead to a useful discussion of advertising, the psychology of want creation, environmental impacts of consumerism, and ways in which consumers could organize to bring about change. In fact, voters, policymakers, and the public sector play significant roles in decisions about the quantity, quality, availability, and price of many goods and services—for example by setting health and safety standards, regulating advertising directed at children, and through taxes and subsidies. The potential negative environmental and psychological impacts of an overly consumerist-oriented society are not discussed in the standards.

Standard III, **Saving**. This standard urges students to begin to save early to take advantage of compound interest. It emphasizes individual choices to save for education, retirement, or unexpected events: "All of this is framed around the choices people make about how much to save."[12] For example, the 12th grade benchmark on government policies asks students to analyze how IRAs (Individual Retirement Accounts) and educational savings accounts are incentives to save. Similarly, a 12th grade discussion question asks: "How do your saving and spending decisions change when government policies or employee benefit programs change?"[13]

Additional Instruction. We believe that the discussion of individual choices should be supplemented by an examination of the need for social programs to provide for higher education, retirement or health care, and a comparison between U.S. policies on higher education and those of other advanced industrial societies, such as the countries of the European community. Because the costs of saving for higher education, retirement, and health care are so high for U.S. families, students should be aware of statistics on the typical net worth of different categories of families: according to the U.S. Census Bureau, the median household net worth for all households in 2011 was $68,828; for black households, the amount was $6,314 and for Hispanic households it was $7,683.[14] It is important to be aware of the realities of life from the middle down to the bottom of the income distribution.

Standard IV, Using Credit. This standard begins with reasonable lifetime planning advice: Use credit wisely, and do not take on too much debt. The Grade 12 benchmarks on credit, for example list individual characteristics that influence lenders' decisions to offer credit, and mention some consumer rights such as entitlement to credit reports, disclosure of credit terms, and bankruptcy. The Grade 8 benchmark recommends examining "the benefits and costs when choosing to use credit to acquire an education,"[15] while a 12th grade credit-related question is "How would you finance your postsecondary education given expected future earnings for your career choice?"[16] This is sound advice at the personal level.

Additional Instruction. This standard needs to be supplemented by a greater understanding of the wider societal problem of debt. Students need to know of the contested nature of consumer protection laws related to credit, and about how the use of credit may be related to deficiencies in the social safety net. While the standards make it clear that bankruptcy can be the result of bad individual choices, students should also be aware that the source of many bankruptcies is unexpected unemployment or medical expenses—incidents that can make even informed financial planning come up short.[17]

One issue of special importance to students is that of being able to pay for a college education. College costs have been rapidly increasing. For example, the average annual cost of tuition, fees, room and board at public four-year universities—which have historically been looked towards as a source of affordable education—has risen from $7,990 in 1993–94 to $12,620 in 2013–14, adjusted for inflation and after accounting for aid in the form of grants and tax benefits.[18] Although the Standards introduction points out that college has become less affordable due in part to "cutbacks in support from state governments,"[19] it is important for students to explore why this has occurred, or consider the possible merits of reversing this trend.

As a university education becomes less affordable, students are now incurring debt at extraordinary levels. According to the Institute for College Access and Success' *Project on Student Debt*, student loans averaged $29,400 for the class of 2012 with many students graduating with far higher debt.[20] At the same time, there seems to be a shrinking set of well-paid jobs for them to fill in the middle of the occupational ladder, and student loan debt can rarely be discharged by declaring personal bankruptcy. The issues of rising costs, reduced public support, and student debt are not simply personal problems for students but a public issue that should be discussed more widely and profoundly than is currently the case. It may be instructive in the classroom to compare U.S. educational policies to those in many European countries in which tuition is free or low-cost for families with limited income.

Standard V, Financial Investing. Standard V offers guidance for making informed choices on financial investments, based on an evaluation of their risks and likely returns.

Additional Instruction. We recommend that discussions of financial investments should also include an examination of historical problems such as speculative bubbles, a deeper review of the government's role in financial markets, and implications of these for workers. Very few K-12 students are investors, and many students from lower- to middle-income backgrounds may never open individual investment accounts. Yet issues of unemployment and constrained credit (for example, those resulting from the financial crisis of 2007–2008) may be highly relevant to their lives.

Standard V1, Protecting and Insuring. This standard emphasizes the personal decision to purchase or decline insurance policies offered by private companies. Examples include homeowners, auto, and health insurance. While brief mention is made of the government-provided social safety net in the 12th grade benchmarks, the topic of social insurance receives less attention than the issue of identity theft.[21]

Additional Instruction. We recommend building on this standard by explaining how people who band together to prevent hazards and pool risks, whether through private companies or through government regulations and programs, can often arrive at better outcomes than those who view financial risks only in individual-choice terms. Recent debates about nationally mandated health insurance, for example, could be used to enrich student understanding of the economic dimensions of health insurance, as well as the social dimensions of the quest for financial security.

Conclusion

The CEE's introduction to the standards points out that financial literacy does not eliminate the need for a social safety net and for the regulation of financial markets to "prevent illegal and abusive practices and to ensure disclosure of pertinent financial information."[22] However, the writers of the standards conclude that "most of the responsibility for managing financial matters rests with the individual."[23] Such an approach is selective, leaving out insights that economics has to offer about the social and political origins of financial problems and the possibility of public solutions.

The standards need to be supplemented by school educators with an examination of the debates that go on within economics and finance. New research and the recent financial crisis have caused many scholars in economics and finance to question the assumptions of rational individual behavior that underlie the mainstream economic model. For example, the housing price bubble showed that even well-informed investors were caught up in the false hope that home prices could keep rising, suggesting that we cannot count on rational behavior to create a stable, growing economy. Of course, such high-level debate may be inappropriate for many K-12 school classrooms, but we believe that teachers at the high school level should examine controversies about consumer finance, income distribution, and corporate power. These are not only engaging topics, they are also necessary if students are to be fully informed citizens. In order to promote effective citizenship, students need to learn why financial problems arise and what can be done, at all levels, to solve them.

Notes

1. Council for Economic Education, *National Standards for Financial Literacy*, www.councilforeconed.org/resource/national-standards-for-financial-literacy/. Hereafter this site is referred to as National Standards for Financial Literacy.
2. Common Core State Standards Initiative, "Implementing the Common Core State Standards," www.corestandards.org/.
3. Council for Economic Education, *Survey of the States 2014: The State of Economic and Personal Finance Education in Our Nation's Schools*, www.councilforeconed.org/news-information/survey-of-the-states/.
4. This phrase is from John S. Morton, "The Interdependence of Economic and Personal Finance Education," *Social Education* 69, no. 2 (2005): 66-69. See also Mark Schug and Jane Lopus, "Economic and Financial Education for the 21st Century," *Social Education* 72, no. 7 (2008): 359-62.
5. Council for Economic Education, Voluntary National Content Standards in Economics, www.councilforeconed.org/resource/voluntary-national-content-standards-in-economics/
6. Table 25.1 of Paul W. Grimes, "Economic Education in American Elementary and Secondary Schools," in *International Handbook on Teaching and Learning Economics*, pp. 259-272, eds. Gail M. Hoyt and KimMarie McGoldrick (Cheltenham, UK: Edward Elgar, 2012).
7. William Bosshardt and William B. Walstad, "National Standards for Financial Literacy: Rationale and Content," *The Journal of Economic Education* 45, no. 1 (2014): 69.
8. Jump$tart Coalition for Personal Financial Literacy, *National Standards in K-12 Personal Finance Education*, http://jumpstart.org/national-standards.html.
9. See John S. Morton, "The Interdependence of Economic and Personal Finance Education," *Social Education* 69, no. 2 (2005): 66-69; Bosshardt and Walstad, 65.
10. *National Standards for Financial Literacy*, 1-5. The quoted excerpt is on p. 1.
11. Ibid, 6.
12. Ibid, 11.
13. Ibid, 15.
14. U.S. Census Bureau, "Net Worth and Assets Ownership of Households: 2011," Table 1, www.census.gov/people/wealth/.
15. *National Standards for Financial Literacy*, 18.
16. Ibid, 20.
17. See Gary Miller, "The Best Health Care System in the World?" *Social Work* 58, no. 2 (2013): 181-183; Aparna Matur, "Health Expenditures and Personal Bankruptcies," *Health* 4, no. 12 (2012): 1305–1316; Melissa B. Jacoby, Mark R. Lindblad, Roberto G. Quercia, and Sarah F. Riley, "Personal Bankruptcy Decisions Before and After Bankruptcy Reform," paper presented at the American Economic Association Annual Meetings (2012). Available from mark_lindblad@unc.edu.
18. College Board, *Trends in College Pricing*: 2013, p. 20, https://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report-140108.pdf
19. *National Standards for Financial Literacy*, iv.
20. The Project on Student Debt, "Student Debt and the Class of 2012," http://projectonstudentdebt.org/.
21. *National Standards for Financial Literacy*, 29.
22. Ibid, vi.
23. Ibid, vi.

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