Financial and Economic Education on the English Curriculum and PSHE: new hope or another false dawn?

Jacek Brant reflects on potential changes in PSHE provision and what the DfE really needs to do to improve financial literacy.

What's new?

In December 2017 the Department for Education announced a consultation on making Personal, Social, Health and Economic Education (PSHE) statutory in both Primary and Secondary schools. This would make the teaching of financial and economic education compulsory and would therefore shape schools' curriculum offer. Whilst there is no plan to formally assess PSHE, if made compulsory and schools' provision was inspected by Ofsted, then this would constitute a significant change. However, if taught by specialists at Secondary School level, as it should be, this would put further pressure on the limited supply of economics (and business) teachers.

What's happening now?

The global financial crisis of 2008, indebtedness, the growth of crypto-currencies and recent musings over the need – or not – of 'austerity' policies have contributed to a resurgence of the study of economics (in England and worldwide). In England, exam entries for A-level economics have risen from a low of 17,762 in June 2004 to over 30,000 last June (2017). But 30,000 students doing A-level economics each year is a drop in the ocean of the four million children in Secondary schools in England. For them, the provision of Financial and Economic Education is not impressive; there is only a modest entitlement and it is found in the Citizenship programmes of study for key stages 3 and 4. The Department for Education website states that

A high-quality citizenship education helps to provide pupils with knowledge, skills and understanding to prepare them to play a full and active part in society. In particular, citizenship education should foster pupils' keen awareness and understanding of democracy, government and how laws are made and upheld. Teaching should equip pupils with the skills and knowledge to explore political and social issues critically, to weigh evidence, debate and make reasoned arguments. ***It should also prepare pupils to take their place in society as responsible citizens, manage their money well and make sound financial decisions.*** *[My stress] …to enable them to manage their money on a day-to-day basis, and plan for future financial needs.*

in its inspections (compared to say, safeguarding). This means in practice that schools will under-play the importance of financial literacy and concentrate on subjects that are assessed, especially the 'English baccalaureate' subjects and areas of the curriculum that may be scrutinised by Ofsted.

While not statutory, nearly all pupils in England take PSHE lessons in some form or another. What separates PSHE from other subjects is that there is no 'high-stakes' assessment and therefore it is seldom taken seriously by teachers or pupils.

Over the five years of key stages 3 & 4, there is only modest reference to financial literacy: "the functions and uses of money, the importance and practice of budgeting, and managing risk" and "income and expenditure, credit and debt, insurance, savings and pensions, financial products and services, and how public money is raised and spent." While there is a formal requirement for these to be taught, there is no formal assessment and in addition Ofsted tends to downplay this provision

Additionally, PSHE is not a subject as such and elements of it are unlikely to be taught by specialists and so its teaching is more likely to be bland and based on worksheets or activities devised by organisations such as 'Young Money' (the new umbrella charity for 'Young Enterprise' and 'pfeg'). While economics as an examination subject is taught by experts, when it comes to matters financial in schools, teaching is normally undertaken by non-experts who rely on pre-prepared lessons

and materials which they 'deliver'. The consequence is that teaching is often 'safe', sterile and consequently does not challenge thinking. Often the resources used are produced by the financial industry – and while they are normally of a high quality – there is 'guilt by omission'. The responsibility to be financially prudent seems to be wholly that of the consumer. Peter Davies (2015) notes that this sharply contrasts to the phenomenon of global financial difficulties and he notes the UK Coalition government's statement from 2010:

In recent years, we have seen a massive financial meltdown due to over-lending, over-borrowing and poor regulation. The Government believes that the current system of financial regulation is fundamentally flawed and needs to be replaced with a framework that promotes responsible and sustainable banking, where regulators have greater powers to curb unsustainable lending practices and we take action to promote more competition in the banking sector. In addition, we recognise that much more needs to be done to protect taxpayers from financial malpractice and to help the public manage their own debts.

It should not be forgotten that banks are profit making business with shareholders who demand a dividend and so banks' motivations are profit-orientated rather than fiscally prudent so it seems logical that definitions of financial literacy should include citizens' understanding of the roles of banks and governments in the conduct of financial systems. There is thus a clear necessity for financial regulation by government to ensure long-term stability. Because of the financial sector and governments' tarnished records it seems unfair to pass all the responsibility for financial problems upon individuals. If we are to prepare citizens with the ability to thrive in the twenty-first century then they need to be equipped with the knowledge and skills to make informed judgements about their own money-management but also how to be informed voters. Davies offers a framework for financial literacy in schools that addresses this issue (see the table on page 21).

Davies notes the important distinction between the short-term and the long-term in the financial education curriculum can align the introduction of financial ideas with different contexts for financial choices. In the short-term, individuals have to make decisions given their current levels of money income and current prices. In the long-term their income will be affected by choices they make about work, education and leisure as well as decisions about borrowing and saving. The merits of longer term financial decisions are affected by inflation and future interest rates. Understanding of real and nominal values is given more prominence in the table than in previous definitions of financial literacy. For the individual, it is important to distinguish between real and nominal values and to recognise that the inflation rates experienced by any individual may be different from the quoted average rate of inflation. The distinction between the short-term and the long-term is equally important in understanding the problems faced by banks and governments. Students who understand differences between short and long-term financial issues are more likely, for example, to understand media references to a 'liquidity crisis' in the banking sector. They might also be more able to recognise the difference between a 'government deficit' and 'the national debt'.

Davies rightly points out that modern financial products are often complex and beyond the understanding of most people and so consumers often rely on their judgement of particular banks but this reliance is problematic when industry norms create systemic difficulties for consumers. There is little evidence (given the ongoing mis-selling scandals) that regulation of financial brokerage is dealing with the asymmetric information problems inherent in the selling of financial products. In these circumstances it is difficult to see how people can do more than rely on their governments to offer them some form of protection through regulation. This raises the question of how they can voice that need.

The final column of the table addresses the role of governments. There are several questions for citizens, for example: How should they view government debt? Is it the same as household debt? When is it good for a government to borrow? Education should help young people to understand the similarities and differences between household and government debt. For example, they should be aware that governments can live with more or less perpetual debt in a way which is unimaginable for households.

Conclusion

Present definitions of financial literacy are inadequate and should be framed in a knowledge base of economics that offers a systemic understanding at a personal, financial and government level. But alas there is currently a chronic shortage of economics teachers in England. We need the Department of Education to recognise the need for economics and financial literacy and fund the preparation of teachers accordingly. A good start would be to offer a sizable bursary for the preparation teachers of economics and business need. If there is no long term investment in our BEE teachers, this may be another failed initiative.

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References

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Table 1: A framework for financial literacy

Sustainability and Ethics in Interaction and Outcomes	Individual	Financial Services	Government/Country
1 Short Term e.g. income, spending, Liquidity, Borrowing and Saving	A Budgeting weekly/monthly; maintaining liquidity; Variation in saving and borrowing constraints for people on low and high incomes	B The interest rate margin between lending and borrowing; Financial Services judgements on the liquidity problems of individuals and businesses; Bank liquidity problems, how they may arise and how they are resolved.	C The Government Budget; Government Debt and Interest payments; Relationships between Taxation, Spending and Debt; Multiplier effects; Welfare payments and poverty; Government lending to and borrowing from banks
2 Longer Term e.g. Wealth, Debt, Interest, Time preference, Inflation, Risk and uncertainty	A Real and nominal values; general and personal inflation; Income and Expenditure forecasts; Borrowing risks; information problems about providers	B Real and nominal interest rates; Security in Lending; Bad debts; Lending risks, asymmetric information; bank lending, investment n industry and economic growth	C Lending to the government: how safe is it; The current 'financial crisis'; Defaults and their effects between countries; Low inflation as a policy; Inflation and National Debt

Source: Davies (2015)