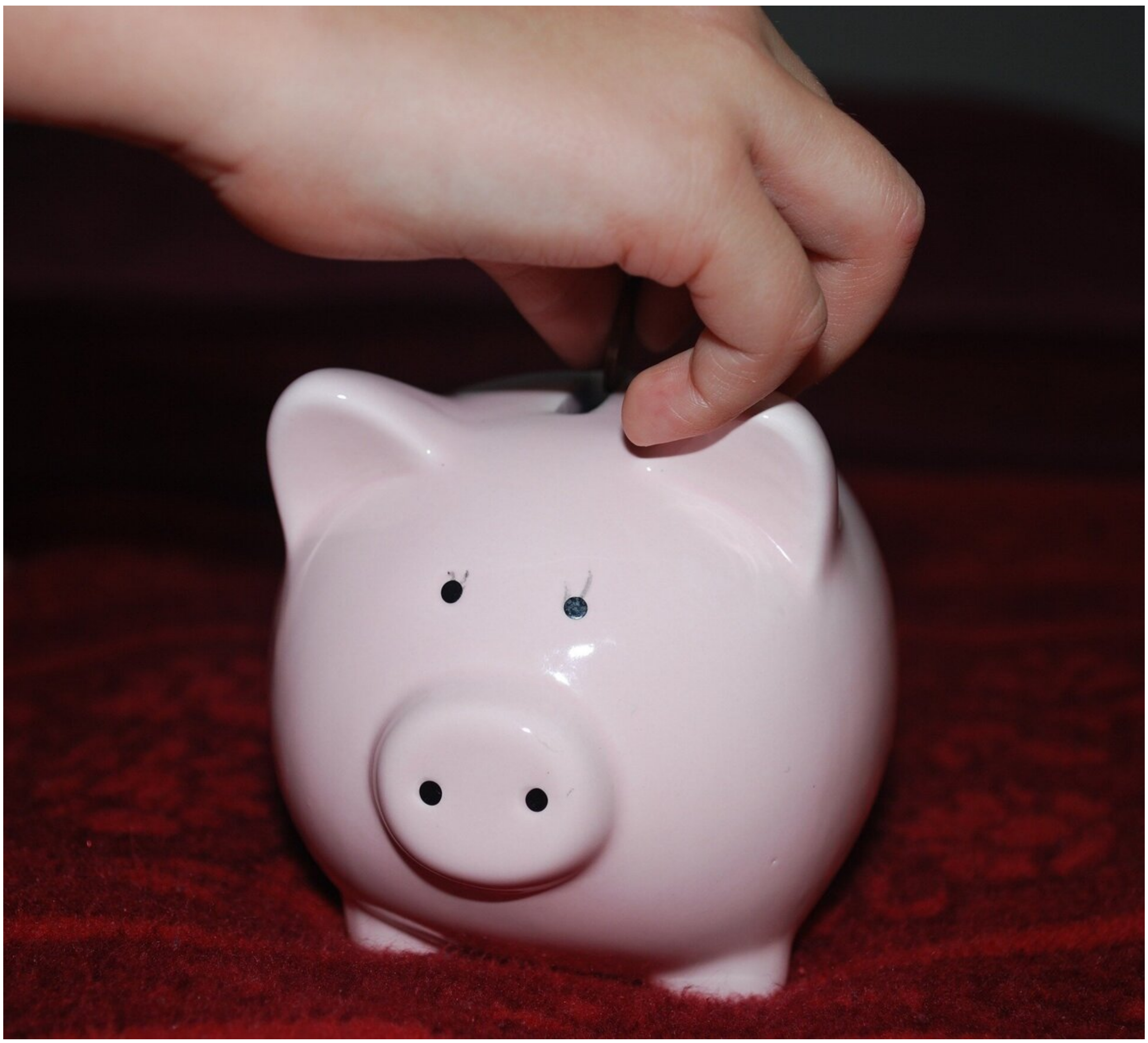
Opinion: Financial education has its limits—if we want New Zealanders to be better with money, we need to start at home

August 28 2023, by Stephen Agnew



Credit: Pixabay/CC0 Public Domain

Even as an economics student at university, I remember heading into town on a Friday night knowing what I needed to pay the bills before I could spend on socializing. But despite having the financial literacy to know better, Monday could still sometimes begin with a trip to the bank to ask for an overdraft extension.

So it was encouraging to hear that financial education has become a political talking point ahead of this year's election. Both Labor and National are promising to deliver compulsory financial literacy classes as part of the school curriculum.

Labor's proposed financial literacy program would include the basics of budgeting, financial concepts and how to be good with money. It would also include explanations of interest rates, retirement savings, insurance, debt and borrowing.

And when Prime Minister Chris Hipkins said "it shouldn't matter what circumstances you were born into, you should still be able to learn concepts to help you," he was right. Improved financial literacy can only be a good thing for New Zealand.

With the country in a recession, New Zealanders are facing both ballooning debt and a legacy of poor saving. The average household debt in New Zealand is now more than 170% of gross household income. This is higher than the United Kingdom (133%), Australia (113%) or Ireland (96%).

And yet, researchers remain divided over whether financial education can actually have a positive impact on financial behavior in the long term. In New Zealand and elsewhere, it seems factors closer to home have a greater influence on a person's financial literacy than anything learned at school.

Education, borrowing and debt

One 2014 meta-analysis of 188 research papers and articles concluded financial literacy interventions had a positive impact on increasing savings, but had no impact on reducing loan defaults.

A second analysis of 126 studies, published in 2017, found financial education positively affected financial behavior—but this had limits for lower-income families. Much like the earlier study, the researchers found borrowing behavior was more difficult to change with formal education than saving behavior.

An important caveat is that these analyses measured the short-term response to hypothetical questions, not long-term behavior.

But even when examining the impact of financial education on short-term behavior, researchers found it was difficult to influence how people handled debt. Compulsory financial education did not improve the likelihood of getting into debt, or the likelihood of defaulting on loans.

Home and financial knowledge

In his famous work on social learning theory, psychologist Albert Bandurra proposed that observation and modeling play a primary role in how and why people learn. They are particularly relevant to the development of financial attitudes, confidence and behavior.

Specifically, young people learn from the financial behavior modeled by their parents, discussions about money in the home, and from receiving pocket money.

It has been suggested the differences in how money and finances are dealt with in the home are linked to why women generally score lower on financial literacy quizzes, as do people from lower socio-economic backgrounds.

Parents' education and their financial sophistication—whether they have stocks, for example—have been shown to affect their offspring's financial literacy. Women are also found to have lower financial confidence, even when they have the right knowledge.

In a New Zealand study of over 1,200 young people aged 14 and 15, the age of the first financial discussion between parent and child was found to be an important influence on future financial knowledge, attitudes and intentions.

The study found boys, on average, had their first financial discussion in the home at a younger age than girls. The age at which these initial discussions happen influence a person's financial literacy levels at tertiary education age and beyond, even accounting for other demographic variables.

These findings suggest the way parents talk and manage finances in the home may be subject to a gender bias, contributing to different levels of financial literacy—and confidence—between girls and boys.

So, as we consider adding financial education to New Zealand's curriculum, it's important to consider all of the factors that will feed into a student's money literacy—and not just focus on test results in a classroom setting.

Provided by The Conversation