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Rich Dad vs. Poor Dad: Why Leaving Financial Education to Parents Breeds Financial Inequality & Economic Instability

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Rich Dad vs. Poor Dad:[1] Why Leaving Financial Education to Parents Breeds Financial Inequality & Economic Instability

*By Afton Cavanaugh**

I. INTRODUCTION

This Article asserts that financial education should be included in public school[2] curricula nationwide to avert future financial crises driven by the decisions of the financially illiterate, and to ensure economic equality among all Americans. Why? Put simply, the world revolves around money.[3] In America, money is necessary to a person's basic survival because money is required to purchase food, shelter, and medical care.[4] Not only is financial literacy helpful to ensuring survival, but it is also an important factor in achieving one's potential if one hopes to do more than merely survive in this country.[5] The American Dream[6] has brought many people from far

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[1] *See generally* ROBERT T. KIYOSAKI & SHARON L. LECHTER, RICH DAD, POOR DAD: WHAT THE RICH TEACH THEIR KIDS ABOUT MONEY-THAT THE POOR AND MIDDLE CLASS DO NOT! (1998) (providing a financial education for those who did not learn important concepts from their parents, or who did not have parents capable of truly teaching them).

> Money is one form of power. But what is more powerful is financial education. Money comes and goes, but if you have the education about how money works, you gain power over it and can begin building wealth. The reason positive thinking alone does not work is because most people went to school and never learned how money works, so they spend their lives working for money.

Id. at 19.

[2] In order to achieve true economic equality and stability it would be beneficial to ensure financial literacy is taught in private, charter, and home schools as well as public schools. However, the federal government has even less ability to impact curriculum decisions at those institutions. A discussion of how to incorporate financial literacy programs into these alternative education options is beyond the scope of this Article; however, as a first step the government could incentivize the use of such curriculum through grants, much as it would be doing in public schools under the proposals included in this Article.

[3] "Money" is defined here as "the medium of exchange authorized or adopted by a government as part of its currency." BLACK'S LAW DICTIONARY 464 (3d Pocket ed. 2006).

[4] Michael W. Kraus, *The Happiness Chronicles II: Does Money Buy Happiness?*, PSYCH. TODAY (Apr. 3, 2012), http://www.psychologytoday.com/blog/under-the-influence/201204/the-happiness-chronicles-ii-does-money-buy-happiness; *see* PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, U.S. DEP'T OF THE TREASURY, INTERIM REPORT 8 (Jan. 18, 2012), http://www.treasury.gov/resource-center/financial-education/Documents/PACFC%20Interim%20Report%2001-18-12%20Final.pdf; *see also* Exec. Order No. 13530, 75 Fed. Reg. 5481 (Jan. 29, 2010) (amended by Exec. Order No. 13591, 76 Fed. Reg. 74623 (Nov. 23, 2011)) (creating the advisory council and subsequently terminating it on January 29, 2013). The economy is negatively impacted when Americans are forced to focus on daily financial struggles for survival. *See generally* BARBARA EHRENREICH, NICKEL AND DIMED: ON (NOT) GETTING BY IN AMERICA (2005) (examining the struggle of surviving on working class wages).

[5] Gus Speth, *What Is the American Dream?: Dueling Dualities in the American Tradition*, GRIST (Jun. 25, 2011), http://grist.org/politics/2011-06-24-what-is-the-american-dream-dueling-dualities-in-the-american-tra/.

[6] To many Americans the American Dream means owning a home, sending their children to college, having steady employment, and social mobility. Robert D. Putnam, *Crumbling American Dreams*, N.Y. TIMES (Aug. 3, 2013), http://opinionator.blogs.nytimes.com/2013/08/03/crumbling-american-dreams/?_r=0; *see also* Speth, *supra* note 5 (stating that the term "American Dream" entered the lexicon thanks to *The Epic Of America* by James Truslow Adams). *See generally* JAMES TRUSLOW ADAMS, THE EPIC OF AMERICA 363 (Simon Publ'g 2001) (1931) (explaining that America is a place where life should be better and richer for every person, with bountiful opportunity for achievement). James Truslow Adams first coined the term "American Dream," but the meaning varies for different cultural groups and has changed over time. *What Is the American Dream?*, CTR. FOR NEW AM. DREAM, http://www.newdream.org/programs/redefining-the-dream/the-american-dream (last visited Nov. 11, 2013).

away shores to the land of opportunity—not simply to survive, but to prosper in their pursuit of life, liberty, and happiness.[7]

In pursuing the American Dream, early and consistent financial education is critical for two primary reasons. First, to ensure a base level of survival in this world, food, shelter, and clothing are all essential, and they are all purchased with money.[8] Second, children must understand the consequences of uninformed financial decisions, know how to evaluate existing options, and make sound financial decisions *before* they are faced with them.[9] By the time teenagers purchase their first cars, pay for insurance, buy cell phones, and decide whether to go to college—one of the biggest financial decisions they will make in their life[10]—they must understand the consequences of their financial decisions.[11]

Despite the necessity of money and the early age at which kids start to interact with it, basic financial skills such as budgeting, planning for retirement, saving for major purchases, evaluating contracts, and calculating interest are not taught in many states. Financial skills classes are part of the required curriculum in fewer than half the states,[12] indicating that the majority of states expect parents to teach these skills. Some parents are experienced and phenomenal teachers, while others do not understand how to use money themselves, and still others will leave these lessons to the individual experience of the child rather than attempt to teach their kids about personal finance.[13] The wide range in levels of proficiency in financial

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[7] *See* RICHARD HAW, THE BROOKLYN BRIDGE: A CULTURAL HISTORY 63 (2005). Millions of new immigrants "poured into New York in the early years of the twentieth century. They sought a home in America . . . a Promised Land of religious freedom, financial opportunity, and racial and social liberty." *Id.*

[8] *See* DAVID E. O'CONNOR, THE BASICS OF ECONOMICS 6 (2004) (explaining that depending on the society a person lives in, these requirements can be relatively simplistic and in some basic cultures with traditional economies they do not produce much more than their basic needs). Many traditional economies utilize systems of barter and exchange to ensure everyone meets their basic needs. *Id.* In the United States it is primarily up to the individual to provide these and other "basics" to ensure the survival of his family. *See generally* PEW RESEARCH CTR., 'INFORMATION AGE' BILLS KEEP PILING UP: WHAT AMERICANS PAY FOR AND HOW (Feb. 2007), http://pewresearch.org/files/old-assets/social/pdf/Expenses.pdf (breaking down the common expenses Americans face).

[9] *See generally* JUMP$TART COAL. FOR PERSONAL FIN. LITERACY, HOW TO RAISE A MONEY SMART CHILD: A PARENT'S GUIDE, http://jumpstart.org/assets/files/MoneySmart%20Child.pdf (last visited Nov. 9, 2013) (teaching parents topics that they should cover to help their children prepare to make smart financial decisions, particularly as they face some of their earliest decisions).

[10] Caroline Howard, *Ranking America's Top Colleges*, FORBES (Jul. 24, 2013), http://www.forbes.com/sites/carolinehoward/2013/07/24/ranking-americas-top-colleges-2013/.

[11] JUMP$TART COAL. FOR PERSONAL FIN. LITERACY, *supra* note 9, at 9. The average price tag for a college education in the 2012-2013 school year ranged from $22,000 for public institutions to $29,000 for private institutions. Kim Clark, *Tuition at Public Colleges Rises 4.8%*, CNN MONEY (Oct. 24, 2012), http://money.cnn.com/2012/10/24/pf/college/public-college-tuition/index.html. The price of a college education continues to rise. *Id.* Despite its prohibitive cost, college remains a sound personal investment. *Id.*

[12] *See* COUNCIL FOR ECON. EDUC., SURVEY OF THE STATES: ECONOMIC AND PERSONAL FINANCE EDUCATION IN OUR NATION'S SCHOOLS 2011, at 1 (Mar. 2012), http://www.councilforeconed.org/wp/wp-content/uploads/2011/11/2011-Survey-of-the-States.pdf (finding that only twenty-two states require students to take a high school course in economics and only fourteen states require schools to offer a personal finance course). Since 2009, three fewer states require economics, and no states have added personal finance requirements. *Id.*; *see also* FINRA INVESTOR EDUC. FOUND., FINANCIAL CAPABILITY IN THE UNITED STATES: NATIONAL SURVEY — EXECUTIVE SUMMARY 5 (Dec. 2009), http://www.finrafoundation.org/web/groups/foundation/@foundation/documents/foundation/p120535.pdf (examining the financial capabilities of Americans via a nationwide survey).

[13] *See* Dan Kadlec, *Financial Education: A Job for Teachers or Parents?*, BUS. TIME (Oct. 8, 2012), http://business.time.com/2012/10/08/financial-education-a-job-for-teachers-or-parents/ ("If we leave it to the parents, we are accepting that we have an unequal society," said Annamaria Lusardi, global leader in the financial literacy movement. Lusardi's research demonstrates that financial literacy accounts for almost fifty percent of the wealth gap between affluent and low-income families); Marc C. Schug, *Foreword* to REFRAMING FINANCIAL LITERACY: EXPLORING THE VALUE OF SOCIAL CURRENCY, at vii, vii (Thomas A. Lucey & James D. Laney eds., Info. Age Publ'g 2012) (discussing the prevalence of financial illiteracy and referring to it as the civil rights issue of today); *see also Getting It Right on The Money*, ECONOMIST (Apr. 3, 2008), http://www.economist.com/node/10958702 (examining the scope of the financial illiteracy problem in America and how people shy away from the issue). "Everybody wants it. Nobody understands it. Money is the great taboo. People just won't talk about it. And that is what leads you to subprime. Take the greed and the financial misrepresentation out of it, and the root of this crisis is massive levels of financial illiteracy." *Id. But see generally* RICHARD H. THALER & CASS R. SUNSTEIN, NUDGE: IMPROVING DECISIONS ABOUT HEALTH, WEALTH, AND HAPPINESS 103–58 (Revised & Expanded ed., Penguin Books 2009) (2008) (arguing that financial literacy is challenging in today's complex and ever changing economic climate).

knowledge found within American society illustrates that leaving personal finance lessons to parents leads to inequality.[14] Low proficiency in financial knowledge is particularly prevalent among socially marginalized groups.[15] Unlike parents that are more financially literate and able to impart important financial concepts onto their children, parents that are financially illiterate are not able to teach their children important financial skills that will help them transform their financial future.[16]

Unfortunately, traditionally marginalized segments of our society have systematically been denied equal participation in the American economy,[17] and while these groups have achieved tremendous progress towards equality, there is much work yet to be done.[18] As these groups struggle to overcome the impact of centuries of economic discrimination and gain a foothold in the American economy, they face an uphill battle in even obtaining access to many financial tools. Understanding and teaching those tools requires an even greater level of knowledge than merely knowing what financial tools exist; it requires the ability to explain which tools apply to a situation, why they apply, and how to use them. Put simply, not all Americans have been provided with the range of tools necessary to attain their financial tool belt or the knowledge needed to use those financial tools.[19]

Given the prevalence of economic instability illustrated by the cyclical nature of our financial crises,[20] the growing numbers of the working poor,[21] and the increasing dependence on government support programs for basic survival,[22] this Article argues that we should not leave the financial education of children to their parents alone. Each of these identified issues emanates in part from poor financial decision-making.[23] A more relevant example of the effects of financial

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[14] *See* Kadlec, *supra* note 13 (asserting that financial literacy "accounts for as much as 50% of the wealth gap" in America).

[15] Tami Luhby, *Worsening Wealth Inequality by Race*, CNN MONEY (June 21, 2012), http://money.cnn.com/2012/06/21/news/economy/wealth-gap-race/index.htm; FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 19-20. These marginalized groups include women, African-Americans, Hispanics, and the undereducated. *Id.*

[16] *See* KIYOSAKI & LECHTER, *supra* note 1, at 9 (stating that the "poor" cannot teach their kids financial skills).

[17] Anabela Dinis, *Entrepreneurship in Minority Groups: A Process Needed for Both Social Cohesion and Economic Development*, ENTERPRISINGMATTERS EMAG., www.isbe.org.uk/AnabelaDinis#sthash.OlFaepT2.dpuf (last visited Nov. 10, 2013) (explaining that marginalized groups often are denied access to key activities of society such as economic participation).

[18] *See* Leadership Conference on Civil Rights & Leadership Conference on Educ. Fund, *Justice on Trial: Racial Disparities in the American Criminal Justice System*, LEADERSHIP CONF., http://www.civilrights.org/publications/justice-on-trial/ (last visited Nov. 22, 2013) ("America's minorities now enjoy greater economic and educational opportunities than at any time in our history. While it certainly cannot be said that the United States has achieved complete equality in these areas, we continue to make slow but steady progress on the path toward that goal.").

[19] The tools necessary to a healthy financial tool belt might include checking and savings accounts, retirement savings accounts, a budget, credit building tools such as credit cards, varied investments, mortgages, lines of credit, countless other financial products, and, most importantly, the knowledge to properly utilize those tools.

[20] *See generally* ECONOMIC DISASTERS OF THE TWENTIETH CENTURY 182–235 (Michael J. Oliver & Derek H. Aldcroft eds. 2007) (laying out the cyclical nature of financial crises in America's economic system).

[21] Michael Snyder, *The Census Revealed America's Fastest Growing Class: The Working Poor*, BUS. INSIDER (Dec. 27, 2010), http://www.businessinsider.com/the-working-poor-2010-12 (explaining that today one out of every three American families are low income); *see* RICH MORIN & SETH MOTEL, PEW RESEARCH CTR, A THIRD OF AMERICANS NOW SAY THEY ARE IN THE LOWER CLASSES 1-2 (2012), http://www.pewsocialtrends.org/files/2012/09/the-lower-classes-final.pdf (indicating that Americans place themselves in lower income brackets than in previous years). The number of Americans describing themselves as lower-middle or lower class has grown from approximately a quarter in 2008, to nearly a third in 2012. *Id.* at 1. The number of Hispanics that describe themselves as lower-class has also grown from thirty percent in 2008 to forty percent in 2012. *Id.* African-Americans have held steady, with approximately thirty-three percent classifying themselves as members of the lower or lower-middle classes. *Id.*

[22] Tami Luhby, *Government Assistance Expands*, CNN MONEY (Feb. 7, 2012), http://money.cnn.com/2012/02/07/news/economy/government_assistance/. "The federal government sent a record $2 trillion to individuals in fiscal 2010, up nearly 75% from 10 years earlier." *Id.*; *see* BERNICE L. BOURSIQUOT & MATTHEW W. BRAULT, U.S. CENSUS BUREAU, DISABILITY CHARACTERISTICS OF INCOME-BASED GOVERNMENT ASSISTANCE RECIPIENTS IN THE UNITED STATES: 2011, at 2 (Feb. 2013), https://www.census.gov/prod/2013pubs/acsbr11-12.pdf ("In 2011, nearly 46.0 million people, or 19.8 percent of the civilian noninstitutionalized population aged 18 years and older, received income-based government assistance through SSI, SNAP, Medicaid, TANF . . . .").

[23] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 2–5; *see Financial Literacy: Empowering Americans to Make Informed Financial Decisions: Hearing Before the S. Subcomm. on Oversight of Gov't Mgmt., the Fed. Workforce, & the D.C., Subcomm. of the Comm. on Homeland Sec. & Governmental Affairs*, 112th Cong. 79-94 (2011) [hereinafter *Financial Literacy Hearing*], *available at*

literacy was America's recent financial crisis, which was fueled in part by homebuyers entering into mortgages they either could not afford or did not understand.[24] To combat the economic instability created by financial illiteracy—and to truly adhere to the values of equality the nation espouses—America must provide financial education in public schools to ensure all children are provided a base level of economic understanding. Because financial decisions begin as early as adolescence, the younger this learning starts the better.[25]

Part II of this Article examines the prevalence of financial illiteracy in America today and illustrates that, given the pervasiveness of financial illiteracy among American adults, not every parent has the knowledge base necessary to teach his or her children healthy financial skills. Next, Part III discusses the ramifications of the pervasiveness of financial illiteracy by looking at the various ways financial illiteracy generates economic instability, impacting America's youth and adults alike. Part IV draws upon the problems generated by financial illiteracy among American adults to explain that leaving it to parents to provide financial education breeds financial inequality, as parents have widely different levels of financial knowledge. Then, Part V suggests that the best solution to the problem of financial illiteracy is to provide financial literacy programs in public schools, and proposes standards for financial curricula as well as how to implement such curricula, and examines possible methods of funding. Finally, Part VI concludes by reiterating the need for greater financial literacy to ensure the success of America's youth as they grow and contribute to the economy—ensuring a true chance at financial equality for all.

II. GROWING FINANCIAL ILLITERACY IN AMERICA

"It is well enough that people of the nation do not understand our banking and money system, for if they did, I believe there would be a revolution before tomorrow morning."[26]

Financial illiteracy is commonplace in American society. Indeed, many Americans lack the foundational personal finance skills necessary for successful participation in the American economic system.[27] Moreover, the concern over the number of people categorized as financially

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http://www.gpo.gov/fdsys/pkg/CHRG-112shrg67127/pdf/CHRG-112shrg67127.pdf (statement of Ben S. Bernanke, Chairman, Bd. of Governors of the Fed. Reserve Sys.).

> The recent crisis demonstrated the critical importance of financial literacy and good financial decision[-]making, both for the economic welfare of households and for the soundness and stability of the system as a whole. Good financial choices depend on reliable and useful information, presented in an understandable way. Essential components of personal financial management include an understanding of how to budget strategically, use credit, save to build personal wealth, and shop for and choose suitable financial products.

Id.

[24] *See* Jeffrey T. Dinwoodie, *Ignorance Is Not Bliss: Financial Illiteracy, The Mortgage Market Collapse, and the Global Economic Crisis*, 18 U. MIAMI BUS. L. REV. 181, 182 (2010) (detailing the role the collapse of the housing market played in the American and global economic crisis).

[25] FIN. LITERACY & EDUC. COMM'N, TAKING OWNERSHIP OF THE FUTURE: THE NATIONAL STRATEGY FOR FINANCIAL LITERACY 83 (2006), http://www.treasury.gov/resource-center/financial-education/Documents/FLEC_NS_Book_4-5-06.pdf. "Like all learning, financial education is a process that should begin at an early age and continue throughout life. This cumulative process builds the skills necessary for making critical financial decisions that affect one's ability to attain the assets, such as education, property, and savings, that improve economic well-being." Alan Greenspan, Chairman, Fed. Res. Bd., Remarks at the Federal Reserve System's Fourth Annual Community Affairs Research Conference (Apr. 8, 2005), *available at* http://www.federalreserve.gov/BoardDocs/speeches/2005/20050408/ (discussing the consumer finance market and the expansion of consumer transaction and credit options).

[26] Quotation of Henry Ford in Famous Quotations on Banking, THE MONEY MASTERS, http://www.themoneymasters.com/the-money-masters/famous-quotations-on-banking/ (last visited Nov. 10, 2013). *See generally* HENRY FORD & SAMUEL CROWTHER, MY LIFE AND WORK 156 (CruGuru 2008) (1922) (discussing Henry Ford's views on the American banking system).

[27] *See* FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 5, 17–18 (demonstrating that a number of Americans cannot answer questions about financial concepts derived from common economic activities such as calculating interest on a loan). For example, fewer than half of survey respondents were able to correctly answer both a math question about inflation and a question about interest.

illiterate is perpetually growing.[28] This number continues to grow as our economy becomes more complex and as more people enter adulthood unprepared to manage their financial well-being.[29]

A. What is financial illiteracy?

Financial illiteracy is considered the lack of ability to understand, anticipate, and adequately plan for one's financial well-being.[30] The Government Accountability Office defines financial literacy as the aptitude to "make informed judgments and to take effective actions regarding the current and future use and management of money."[31] A financially literate skill set "includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges that come with life events such as a job loss, retirement, or saving for a child's college education."[32] Someone not equipped with these basic skills is considered financially illiterate. Importantly, "[a] lack of financial literacy affects consumers' economic well-being and security in a variety of ways. Poor money management and financial decision making can lower a family's standard of living and interfere with crucial long-term goals, such as buying a home and financing retirement."[33] For low-income families struggling to support their basic needs, financial literacy can mean the difference between paying the bills and facing disconnected utilities, starvation, and even homelessness.

Other measured financial knowledge components include everyday math skills, and an understanding of monetary concepts such as interest and inflation.[34] The inability to demonstrate an understanding of these basic concepts is one factor considered in earning one a designation of financially illiterate.[35] A base level understanding of math such as adding and subtracting money, or calculating income earned versus expenses paid, helps in making financial calculations.[36] Making such calculations may seem like a simple task, yet a number of Americans spend more than their income every year,[37] suggesting that they are not properly calculating what they can afford to pay based on the income they earn. While it is true that many of these families may by necessity spend more than they earn because they do not make enough to cover their base-level survival needs, financial illiteracy may also contribute to this problem.[38] Monetary concepts are also important to one's financial skills tool belt because pursuing financial success in modern society often involves the acquisition of various financial products[39] such as mortgages,

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Id. at 18. Less than ten percent of respondents were able to answer all the questions covering fundamental financial concepts correctly. *Id.*

[28] Thomas L. Harnisch, *Boosting Financial Literacy in America: A Role For State Colleges and Universities*, PERSPECTIVES, Fall 2010, at 1, http://www.aascu.org/uploadedFiles/AASCU/Content/Root/PolicyAndAdvocacy/PolicyPublications/AASCU_Perspectives_Boosting_Financial_Literacy(3).pdf (discussing the growing concern regarding financial illiteracy in America).

[29] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 2; *Financial Literacy Hearing*, *supra* note 23 (suggesting that learning financial concepts should begin in childhood).

[30] U.S. GOV'T ACCOUNTABILITY OFFICE, HIGHLIGHTS OF A GAO FORUM: THE FEDERAL GOVERNMENT'S ROLE IN IMPROVING FINANCIAL LITERACY 1 (Nov. 2004), http://www.gao.gov/new.items/d0593sp.pdf.

[31] *Id.*

[32] *Id.*

[33] *Id.*

[34] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 18. Measuring financial knowledge components includes asking fundamental economics and finance questions related to topics such as interest, inflation, risk, and mortgage questions. *Id.*

[35] *See id.* (testing concepts designed to determine one's financial literacy).

[36] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 17; *see also* Jacob Vigdor, *Solving America's Math Problem*, 13 EDUCATIONNEXT, Winter 2013, *available at* http://educationnext.org/solving-america%E2%80%99s-math-problem/ (examining how far American children lag behind their global counterparts in mathematical capability throughout their education).

[37] *See* PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3 (twelve percent of Americans reported that their spending exceeded their income in 2011).

[38] *See Only 41% of Americans Spend Less Than Their Income*, CREDIT.COM BLOG (Jun. 9, 2013), http://blog.credit.com/2013/06/only-41-of-americans-spend-less-than-their-income/ (examining the impact of poor financial decision-making on overspending).

[39] *See* U.S. GOV'T ACCOUNTABILITY OFFICE, *supra* note 30, at 8-9 (discussing the range of financial topics that should be emphasized in financial education, and thereby implying that such topics are important to one's financial success); *see also* FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 4, 17 (listing some of the aspects of the current financial landscape).

retirement accounts, medical savings plans, college education savings plans, and many others. To make informed and beneficial decisions when acquiring these financial products, one must not only be able to assess interest rates and tax costs, but also have the ability to afford the cost long-term.[40] Thus, a financially literate person should be able to make base level math and monetary calculations, as well as effectively manage his or her personal finances.[41] Therefore, adults need a strong foundation in basic math and personal finance skills before they can effectively teach such skills to their children.

B. The Rising Prevalence of Financial Illiteracy

Financial illiteracy is not just a problem from years past.[42] It is very much present and prevalent in America today.[43] Various studies demonstrate the range and form of financially illiteracy.[44] The rise of programs and legislation targeted at improving financial literacy, especially starting in the 2000s, demonstrates widespread recognition and growing concern about the problem.[45] Nevertheless, as the economy has made its way out of a recession over the last

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- Consumers are faced with a wider and increasingly complicated array of options for managing their personal finances and selecting investments and credit products.
- Technological advances have increased the capacity for targeted marketing to consumers, potentially increasing some consumers' vulnerability to predatory lenders and other unscrupulous providers of financial services.
- Consumers are increasingly responsible for their own retirement savings, with traditional defined-benefit retirement plans becoming increasingly rare.
- The personal saving rate has fallen dramatically, declining from nearly 7 percent of gross domestic product in the 1970s and 1980s to around 2 percent in recent years.
- Household debt as a percentage of income hovers at record high levels. In addition, bankruptcy rates have more than quadrupled in the past 20 years.

U.S. GOV'T ACCOUNTABILITY OFFICE, *supra* note 30, at 2.

[40] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 17.

[41] *See id.* (evaluating financial knowledge through mathematical assessment questions); MICHAEL JUSTIN LEE, THE CHALLENGE OF FINANCIAL NUMERACY: REQUISITE MATHEMATICAL REASONING FOR FINANCIAL LITERACY 2 (2013) (identifying functional literacy and functional numeracy as important to financial literacy).

[42] James Surowiecki, *Greater Fools*, NEW YORKER (Jul. 5, 2010), http://www.newyorker.com/talk/financial/2010/07/05/100705ta_talk_surowiecki ("Financial illiteracy isn't new, but the consequences have become more severe, because people now have to take so much responsibility for their financial lives.").

[43] *See id.* (laying out some of the "startling" statistics of financial illiteracy today). The author also explains that more needs to be done if the nation is going to truly resolve the problem of financial literacy:

> Almost half of those surveyed couldn't answer two questions about inflation and interest rates correctly, and slightly more sophisticated topics baffle a majority of people. Many people don't know the terms of their mortgage or the interest rate they're paying. And, at a time when we're borrowing more than ever, most Americans can't explain what compound interest is.

Id.

[44] Some of the studies cited in this Article include: PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4; COUNCIL FOR ECON. EDUC., *supra* note 12; FINRA INVESTOR EDUC. FOUND., *supra* note 12.

[45] The first major piece of legislation was the Excellence in Economic Education Act of 2001. 20 U.S.C.A. § 7267 (West 2013).

> (a) PURPOSE- The purpose of this subpart is to promote economic and financial literacy among all students in kindergarten through grade 12 by awarding a competitive grant to a national nonprofit educational organization that has as its primary purpose the improvement of the quality of student understanding of personal finance and economics.
>
> (b) OBJECTIVES- The objectives of this subpart are the following:
>
> (1) To increase students' knowledge of, and achievement in, economics to enable the students to become more productive and informed citizens.
>
> (2) To strengthen teachers' understanding of, and competency in, economics to enable the teachers to increase student mastery of economic principles and the practical application of those principles.
>
> (3) To encourage economic education research and development, to disseminate effective instructional materials, and to promote replication of best practices and exemplary programs that foster economic literacy.
>
> (4) To assist States in measuring the impact of education in economics.
>
> (5) To leverage and expand private and public support for economic education partnerships at national, State, and local levels.

four years, the momentum has slowed in developing financial literacy programs, and even regressed despite the clear failure of states to make much progress in educating Americans about personal finance.[46]

The statistics paint a compelling picture of the incredible depth of the financial illiteracy problem. In one recent study, adults scored a "C" in financial literacy, and high school students generally received an "F."[47] Surveys conducted by various other interest groups included questions about personal finance, basic math, and finance concepts.[48] In particular, the Financial Literacy Education Commission's yearly survey, conducted in 2009, found the following:

- Almost half of Americans reported having trouble keeping up with monthly expenses.
- [Forty-nine] percent of respondents said they had set aside sufficient funds for three months in case of sickness, job loss or economic downturn.
- [Forty-two] percent have tried to figure out how much they need to save for retirement.
- [Forty-one] percent have saved for their children's education, with one-third of those using tax-advantaged savings accounts;
- [Fifteen] percent of Americans are "unbanked," which means they lack a checking account. This includes roughly [thirty] percent of African-Americans and Hispanics.[49]

In another study,

- [Forty-nine] percent of Americans indicated that it was somewhat or very difficult for them to cover their expenses and pay their bills in a typical month;
- Roughly half ([fifty-one] percent) said they sometimes carried over a balance on their credit card(s) and were charged interest;
- [Twelve] percent reported that their spending in the past year exceeded their income;
- [T]he majority of Americans do not have a 'rainy-day' fund for unanticipated financial emergencies and are not adequately preparing for their children's college education and their own retirement.[50]

These statistics demonstrate that Americans are not receiving the financial education they need to assess financial products and plan for the present and the future. Yet we ask these same adults to teach their children how to make better financial decisions than they themselves are capable of making. By way of example, the fifteen percent of "unbanked" Americans may not be able to

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Id. § 7267a(a)-(b).

[46] *See* R.A., *America's Recession: It's Over*, ECONOMIST (Sept. 20, 2010), http://www.economist.com/blogs/freeexchange/2010/09/americas_recession (noting that the recession officially ended in June 2009); COUNCIL FOR ECON. EDUC., *supra* note 12 (finding that only twenty-two states require high school students to take a course in economics and only fourteen states require schools to offer a personal finance course). From the Council's 2009 survey, three fewer states require testing in economics, and no states have added personal finance course requirements. *Id.*

[47] Annamaria Lusardi & Olivia S. Mitchell, *How Ordinary Consumers Make Complex Economic Decisions: Financial Literacy and Retirement Readiness* 12-15 (Nat'l Bureau of Econ. Research, Working Paper No. 15350, 2009). The test takers' scores are calculated and then assigned a letter grade similar to the grades commonly assigned in public education. For instance, an "F" would be a score of 69 or below, a "D" would be a 70-74, a "C" would be a 75-79, a "B" would be an 80-89, and an "A" would be a 90-100.

[48] Lusardi & Mitchell, *supra* note 47.

[49] Harnisch, *supra* note 28, at 6.

[50] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3; FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 19-20.

teach their children to effectively evaluate financial institutions and balance their bank accounts because they lack the experience necessary to utilize those skills for themselves.

Another indication of the growing concern over financial illiteracy is the involvement of the U.S. government in combating this issue, particularly over the last decade.[51] For example, the Excellence in Education Act of 2001 vested in the Department of Education the ability to award funds to nonprofit organizations focused on educating students in economics and personal finance.[52] The Fair and Accurate Credit Transactions Act of 2003 (FACTA)[53] established the Financial Literacy and Education Commission (FLEC), consisting of approximately twenty federal agencies with existing financial education programs.[54] FLEC has since been active in researching and developing solutions to the financial literacy problem.[55] Additionally, the Financial Literacy and Education Improvement Act became Title V of the FACTA Act.[56]

On January 29, 2010, President Obama signed an Executive Order creating the President's Advisory Council on Financial Capability.[57] This succeeded a similar council established by President Bush in 2008 during The Great Recession.[58] FLEC provided easily accessible methods to disseminate important finance information to the American public, such as a website, MyMoney.gov, and a hotline, 1-888-MyMoney, as required under the Financial Literacy and Education Improvement Act.[59] The Higher Education Opportunity Act sought to provide financial education to student loan borrowers by requiring guaranty agencies to implement classes and training tools targeted at improving financial literacy among student borrowers and their families, primarily through the expansion of information services.[60] Though the government has been active in this area, it is clear that more must be done.[61] At the very least, the government needs to keep the momentum of change going and make educating youth a priority.[62] If Congress ensured that children were provided a solid financial education via the school system, perhaps America could end financial illiteracy once and for all. Providing a solid financial education to America's youth should go a long way towards reversing the trend of growing financial illiteracy.

C. Why More Americans are Becoming Financially Illiterate

Why are more Americans financially illiterate than in previous years? The answer is complicated. First, while the problem of financial illiteracy is growing due to the increasingly complex matrix of financial products and its impact on the American economy is expanding, it is

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[51] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 11 ("Supporting leadership, coordination and role clarity among federal, tribal, state and local agencies on the issues of financial education, access and empowerment."); *see* Exec. Order No. 13530, 75 Fed. Reg. 5481 (Jan. 29, 2010).

[52] 20 U.S.C.A. § 7267a (West 2013).

[53] Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159, Title V, 117 Stat. 1952.

[54] 20 U.S.C.A § 9702.

> (a) IN GENERAL.—There is established a commission to be known as the 'Financial Literacy and Education Commission'.
> (b) PURPOSE.—The Commission shall serve to improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education.

Id. § 9702 (a)-(b).

[55] *See generally* FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at v-xv (laying out the Commission's work over the last few years).

[56] Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159, Title V, 117 Stat. 1952.

[57] Exec. Order No. 13530, 75 Fed. Reg. 5481 (Jan. 29, 2010) (creating the advisory council and subsequently terminating it on January 29, 2013).

[58] Exec. Order No. 13455, 73 Fed. Reg. 4445 (Jan. 22, 2008). The Great Recession will be examined in more detail below.

[59] 20 U.S.C.A. § 9703. The hotline number is available at *Contact Us*, MYMONEY.GOV, http://www.mymoney.gov/Pages/Contact-Us.aspx (last visited Nov. 10, 2013).

[60] Higher Education Opportunity Act, Pub. L. No. 110–315, §§ 110, 421-438, 122 Stat 3078, 3490 (2008).

[61] *See* COUNCIL FOR ECON. EDUC., *supra* note 12.

[62] *Id.*

not really a new problem.[63] A segment of American society has always been financially illiterate,[64] which, in the past, was either caused by or resulted in their economic marginalization. The economically marginalized simply lacked the ability to have an impact on the overall economy.[65] Now, however, the democratization of credit has made it so that even the economically marginalized can impact the economy in a large way.[66]

The democratization of credit refers to the increasing ability of consumers from all economic levels to obtain items on credit.[67] This phenomenon is evidenced in many ways. Today, lenders may provide a number of options for payment on a desired good or loan.[68] Some companies, such as payday lenders, pawn shops, rent-to-own centers, and many more, exist to provide financing options to Americans with poor credit, often at incredibly high interest rates.[69] The democratization of credit is a positive change that allows Americans to participate more fully in the economy, yet simultaneously requires the economically marginalized, who have traditionally been rejected by creditors, to understand what they are signing.[70]

The second reason that more Americans are financially illiterate has to do with the change in America's financial landscape since the 1980s.[71] One major change is seen in the way Americans plan and prepare for their retirement.[72] Today, the "baby boomer" generation is entering retirement in large numbers, having a considerable impact on the economy.[73] Historically, people participated in defined benefit plans, commonly referred to as pension

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[63] Surowiecki, *supra* note 42 ("The financial marketplace, meanwhile, has become a dizzying emporium of choice and easy credit. The decisions are more numerous and complex than ever before.").

[64] *See generally* Harnisch, *supra* note 28 (stating that widespread financial illiteracy still exists today, particularly among low-income people and minorities).

[65] *Improving Financial Literacy in the United States: Hearing Before the S. Comm. on Banking, Housing, & Urban Affairs*, 109th Cong. 39 (2006) (statement of Ben S. Bernanke, Chairman, Bd. of Governors of the Fed. Reserve Sys.).

> Notably, increasingly sophisticated information technologies enable lenders to collect and process data necessary to evaluate and price risk much more efficiently than in the past. For example, the expanded use of credit-scoring models, by reducing the costs of making loans and by increasing the range of assets that can be securitized, has facilitated greater extension of credit to a larger group of borrowers. Indeed, we have seen an increasingly wide array of products being offered to consumers across a range of incomes, leading to what has been called the democratization of credit.

Id.

[66] *Id.*

[67] *See* Regina Austin, *Of Predatory Lending and the Democratization of Credit: Preserving the Social Safety Net of Informality in Small-Loan Transactions*, 53 AM. U. L. REV. 1217, 1225 (2004) ("Formal lenders would justify the extension of their financial products to debtors occupying the lowest socioeconomic tiers on the grounds that they, no less than the affluent, are deserving of the benefits of a democratization of credit, which is to say 'formal credit.' Nonetheless, the suitability of the options available to small-sum debtors is important because credit is an essential component of the social safety net that protects citizen-consumers from excessive financial insecurity.").

[68] *Id.* at 1230.

[69] *Id.* at 1218-19; *see* Christopher Konneker, Comment, *How the Poor Are Getting Poorer: The Proliferation of Payday Loans in Texas via State Charter Renting*, 14 SCHOLAR 489, 507 (2011) (stating that interest rates on payday loans typically range between 450% to 880% APR on a two-week loan); *see also* Zoe Elizabeth Lees, Comment, *Payday Peonage: Thirteenth Amendment Implications in Payday Lending*, 15 SCHOLAR 63, 65 (2012) (explaining that one borrower's $300 payday loan cost her $1,200 in interest per year).

[70] *See* Austin, *supra* note 67, at 1219, 1221 (contextualizing lending practices in the formal and informal economy).

> By providing credit outside of formal markets via informal transactions, informal lenders are part of the social safety net twice over. They are loosely organized and operate on a small scale. They may specialize or cater to a discrete niche of the loan market. They are physically and socially accessible, lend very small amounts of money, employ fairly simple and transparent procedures, and process requests or applications for loans rapidly.

Id. at 1229.

[71] Harnisch, *supra* note 28, at 8.

[72] *Id.* at 4.

[73] *See Sponging Boomers*, ECONOMIST (Sept. 29, 2012), http://www.economist.com/node/21563725 ("Another economic mess looms on the horizon—one with a great wrinkled visage. The struggle to digest the swollen generation of ageing baby-boomers threatens to strangle economic growth. As the nature and scale of the problem become clear, a showdown between the generations may be inevitable.").

plans.[74] Employees and employers pay into pension plans and employees are guaranteed the payment of a fixed sum determined by the amount of contributions and the length of the employee's service.[75] Today, most people participate in defined contribution plans like 401(k)s,[76] which place most of the contribution burden on employees, though employers usually contribute a percentage to the fund.[77] The payout upon retirement depends largely on how the plans perform in the market during an employee's years in the workforce.[78] The employee bears the risk of loss on the market.[79] Consequently, "[n]ot only must individuals take greater charge of their financial well-being once they retire, but they must also forecast future financial needs, navigate increasingly complex financial markets and manage risk, both during and after their working years."[80] During The Great Recession this set up resulted in a significant loss of retirement money for many individuals.[81]

Furthermore, the range of financial products available since the 1980s has increased and become far more complex with the change in America's financial landscape.[82] Instead of a traditional thirty-year fixed rate mortgage, a borrower can enter into an adjustable rate mortgage, a balloon mortgage, an interest only mortgage, or a reverse mortgage.[83] In fact, for millions of

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[74] Kandice A. Kapinos, *Changes in Firm Pension Policy: Trends Away From Traditional Defined Benefit Plans* 2, 6 (Ctr. for Retirement Research at Boston College, Working Paper No. 2011-6, 2011).
[75] BLACK'S LAW DICTIONARY 531 (3d Pocket ed. 2006).
[76] Merriam Wesbter's Dictionary defines a "401(k)" as "a method by which the workers in a company can save money for their retirement by having an amount of money saved from their paychecks over a long period of time." *401(k)*, MERRIAM-WEBSTER, http://www.merriam-webster.com/dictionary/401(k), (last visited Nov. 10, 2013).
[77] *See generally* Leslie E. Papke, *Are 401(k) Plans Replacing Other Employer-Provided Pensions? Evidence from Panel Data*, 34 J. HUM. RESOURCES 346 (1999) (discussing the trend towards 401(k) plans); Leslie E. Papke et al., *Do 401(k) Plans Replace Other Employer Provided Pensions?*, ADVANCES ECONS. AGING 219, 219 (1996).
[78] Olivia S. Mitchell & Sylvester J. Schieber, *Defined Contribution Pensions: New Opportunities, New Risks*, *in* LIVING WITH DEFINED CONTRIBUTION PENSIONS 4, 9-11 (Olivia S. Mitchell & Sylvester J. Schieber eds., 1998).
[79] *Id.* at 11.
[80] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 4.
[81] Barbara A. Butrica & Karen E. Smith, *401(k) Participant Behaviors in a Volatile Economy* 1 (Ctr. for Retirement Research at Boston College, Working Paper No. 2012-24, 2012) ("Retirement account balances (defined contribution plans and IRAs) peaked at $8.7 trillion in the third quarter of 2007 before plummeting $2.7 trillion (31 percent) through the first quarter of 2009 as the stock market crashed. Although retirement account balances have now recovered much of their value, they would have been significantly higher had the market not crashed and instead continued on its pre-crash path."); *see also* Peter J. Brady, *What Does the Market Crash Mean for the Ability of 401(k) Plans to Provide Retirement Income?*, 62 NAT'L TAX J. 455, 455-76 (2009) (analyzing the impact of the market crash on the availability of retirement benefits).
[82] *See* Harnisch, *supra* note 28, at 5, 8-9 (listing several ways the financial landscape has changed since the 1980s); FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 4 (discussing the growing complexity of the financial decisions Americans face).
[83] *Common Types of Home Mortgages*, USA.GOV, http://www.usa.gov/topics/family/homeowners/buyingselling/mortgages/types.shtml (last updated Oct. 18, 2013).

homebuyers, the inability to understand the mortgage option they selected in acquiring a home contributed to the recent recession, as will be discussed in more detail below. Purchasers must be able to choose from a wide variety of options. The cost of a college education and retirement, in addition to many other milestones has only increased over time and will continue to increase, making planning for these expenses more challenging and necessary than ever before.[84]

D. Why Does This Matter for Young Americans?

"Part of your heritage in this society is the opportunity to become financially independent."[85]

Young Americans face a number of financial decisions early in life.[86] It is futile for them to receive a financial education after they have begun to make such decisions.[87] Even worse, as older Americans impart financial education, they often fail to take into consideration the magnitude of the decisions young Americans will be making before they graduate from high

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Type of Mortgage	Pros	Cons
Fixed-rate mortgage	No surprises The interest rate stays the same over the entire term, usually 15, 20 or 30 years.	If interest rates fall, you could be stuck paying a higher rate.
Adjustable-rate (ARM) or variable-rate mortgage	Usually offers a lower initial rate of interest than fixed-rate loans.	After an initial period, rates fluctuate over the life of the loan When interest rates rise, generally so do your loan payments.
FHA (Federal Housing Administration) loan	Allows buyers who may not qualify for a home loan to obtain one Low down payment.	The size of your loan may be limited.
VA loan	Guaranteed loans for eligible veterans, active duty personnel and surviving spouses Offers competitive rates, low or no down payments.	The size of your loan may be limited.
Balloon mortgage	Usually a fixed rate loan with relatively low payments for a fixed period.	After an initial period, the entire balance of the loan is due immediately This type of loan may be risky for some borrowers.
Interest-only	Borrower pays only the interest on the loan, in monthly payments, for a fixed term.	After an initial period, the balance of the loan is due. This could mean much higher payments, paying a lump sum or refinancing.
Reverse mortgage	Allows seniors to convert equity in their homes to cash; you don't have to pay back the loan and interest as long as you live in the house.	Subject to aggressive lending practices and false advertising promises, particularly by lenders that prey on seniors. Check to make sure the loan is Federally insured.

Id. (showing the advantages and disadvantages of the different types of mortgage options).

84 FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 7-9.

85 Jim Rohn, *Finance Quotes*, BRAINY QUOTE, http://www.brainyquote.com/quotes/topics/topic_finance.html#OyyS6btsmreaGDcJ.99 (last visited Nov. 10, 2013).

86 FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at 85.

87 ALISA F. CUNNINGHAM & GREGORY S. KIENZL, INST. FOR HIGHER EDUC. POLICY, DELINQUENCY: THE UNTOLD STORY OF STUDENT LOAN BORROWING 4 (Mar. 2011), http://www.asa.org/pdfs/corporate/delinquency_the_untold_story.pdf.

> Student financial aid—including grants and loans—plays a key role in supporting students' access to and success in college. Yet, despite periodic increases in grant funding, students and their families have increasingly relied on borrowing to cover more of the costs of higher education. As the number of student borrowers has increased and their cumulative indebtedness has grown, so too has concern about whether the resulting debt levels are manageable and about the long-term impact of student loan debt on other life choices and consumption patterns. Absent more complete data, policymakers have often focused on default rates, which are an incomplete measure of the range of experiences of contemporary students, including those who may have difficulties repaying their student loans. Default rates do not include the many borrowers who become delinquent on their federal education loans, but manage to avoid default. These borrowers face some of the same consequences as borrowers who default, but until now, the size and significance of this group has not been recognized or been part of the policy discussion about default prevention and financial literacy in general.

Id.

school, and as they prepare to enter college.[88] Unfortunately, many young Americans do not graduate from high school, and many more do not continue on to college.[89] For those that do go on to college, whether or not they take on student loans to cover the cost is a decision that has a large impact on their financial future. Student loans can tie up young adults well into their later years, and they may struggle to repay their loans if they are unable to find adequate employment after college.[90] At seventeen or eighteen years old, it is difficult to understand the long-term impact of such financial decisions.[91] As the statistics discussed above demonstrate, even experienced adults have trouble planning for a financial impact that spans that far into the future.[92]

Consider some illuminating examples from two student borrowers illustrating the limiting effect major financial decisions had on their future success. One borrower explained:

> I admit I did not understand [the concept of] capitalized interest until recently. I consolidated my loans in 1997 when the interest rate was [at eight] percent. My student loan office at Tulane University led me to believe that I 'had' to consolidate and Sallie Mae was the only option offered to me.
>
> I have repaid them over $61,000 (over [fourteen] years). I think I should be done now, but according to Sallie Mae I still owe $25,000. A Sallie Mae employee directed me to write the legal department and ask to have my loan written off and to appeal if they denied. They denied, stating that federal government regulation prevents them from writing off them balance of the loan.
>
> When I talked to the Sallie Mae employee and said I was confused about why on most months more of my payment goes to interest than principal . . . she chuckled and said 'We certainly don't go out of our way to put that in big bright red letters across the front page.'

Another student borrower described the impact student loans have on the wider economy:

> I have three degrees, including an MA and a JD. When I graduated from law school in '99 all of the offers – with the exception of those from the upper echelon firms that essentially own you – were for little money, leaving next to nothing for living expenses.
> Now I am making a decent living and can pay my loans under the (income-based repayment) program, but repayment is a distant dream. As a result, I am unable to assist my son with his education expenses (thereby effectively making the debt trans- generation), or buy a home, start my own practice, etc.

[88] FIN. LITERACY & EDUC. COMM'N, *supra* note 25, 83-84.

[89] Robert Balfanz & John Gomperts, *What You Won't Hear at High School Graduation*, CNN (Jun. 6, 2013), http://www.cnn.com/2013/06/06/opinion/balfanz-high-school-graduation/index.html. "In reality, fewer than 80% of students receive a regular high school diploma (not simply a GED) within four years. That number drops to less than 70% for African-American students and lower yet for students with disabilities and English language learners." *Id.*

[90] Harnisch, *supra* note 28, at 14; *see also* Derek Thompson, *Are Student Loans Destroying the Economy?*, ATLANTIC (Apr. 22, 2013), http://www.theatlantic.com/business/archive/2013/04/are-student-loans-destroying-the-economy/275083/ (stating that the purchase of houses and cars powers economic recoveries, and young Americans are buying neither because they are tied up with student loan debt).

[91] Mandi Woodruff, *9 Unbelievable Student Loan Horror Stories*, YAHOO! FIN. (Nov. 26, 2012), http://finance.yahoo.com/news/9-unbelievable-student-loan-horror-stories-165512874.html?page=all. The price tag of a college education is tremendously high and takes a long time to pay back. It is hard for many young people to look far enough into the future to consider how paying for college now will impact their ability to purchase a house or buy a car five or ten years from now.

[92] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 22.

> As a macro-economic problem, those of us saddled with this debt are unable to fully participate in the economy.[93]

Stories such as these characterize the situation a number of people face after graduating from college, when they are left to confront the consequences of their earliest financial decisions.[94] College students may buy their first car, rent their first apartment, and make a number of other financial investments to prepare for their future before they have had much exposure to financial education either through the school system or through personal experience. All of these decisions will have long-term implications for a student's success upon completion of his or her education.[95] Beyond the limiting effect of poorly informed choices on a young person's credit and future financial success, many employers now examine an applicant's credit when considering whether to offer employment.[96] Thus, not only might the financially illiterate struggle to support themselves adequately throughout their lives to truly achieve the American Dream, but they may also lose out on employment opportunities that could ensure a stable income.[97] That is a grim future for anybody to face, much less a young person faced with the ramifications of his or her earliest financial decisions. Young Americans that fall into one of the marginalized groups within American society face additional obstacles. They are hampered by trans-generational debt and lack exposure to the modeling of sound financial decision making due to their parents own struggles to bridge the economic divide.

II. FINANCIAL ILLITERACY BREEDS ECONOMIC INSTABILITY

"It is incumbent upon each of us to improve spending and savings practices to ensure our own individual financial security and preserve the collective economic well-being of our great society."[98]

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[93] Woodruff, *supra* note 91.

[94] *Id.*; CUNNINGHAM & KIENZL, *supra* note 87. One consequence of early financial decisions may be credit card debt; college students are frequently targeted by credit card companies seeking to acquire new consumers. *See* Michelle Singletary, *Despite New Card Law, Credit Card Companies Still Targeting Young Adults*, WASH. POST (Jan. 12, 2011), http://www.washingtonpost.com/wp-dyn/content/article/2011/01/12/AR2011011205565.html ("Jim Hawkins, a professor at the University of Houston Law Center, found that 76 percent of the 300 undergraduates participating in a survey he conducted had received a preapproved credit card offer last year."); *see also* Harnisch, *supra* note 28, at 13 ("The median [credit card] debt for freshman students tripled from 2004, and the average senior had a balance of over $4,000. The average amount charged for school-related expenses, according to the survey, doubled since 2004."). This Article does not attempt to offer an opinion on these practices; that is beyond the scope of this discussion. The purpose of this Article is to illustrate the financial decisions teens and young adults face be they good, bad, predatory, or otherwise.

[95] *See* Harnisch, *supra* note 28, at 13-15 (discussing the financial challenges students face during and after college); *see also* CUNNINGHAM & KIENZL, *supra* note 87, at 26-28 (explaining the identifying characteristics of a student that is more likely to repay his student loan debt).

[96] Daniel Bortz, *How to Convince a Prospective Employer to Overlook Poor Credit*, U.S. NEWS (Dec. 14, 2012), http://money.usnews.com/money/personal-finance/articles/2012/12/14/how-to-convince-a-prospective-employer-to-overlook-poor-credit.

> Despite a slowly strengthening economy, job seekers have plenty to worry about these days. Stiff competition and fewer available jobs are holding many Americans back from joining the labor force. Unfortunately, job seekers with poor credit have yet another thing working against them.
>
> An estimated 47 percent of U.S. employers conduct credit background checks on job candidates, according to a 2012 survey by the Society for Human Resource Management (SHRM). That's down from the 60 percent who conducted credit checks in 2010. Red flags differ among employers but could include late payments, maxed credit cards, or other financial black marks that indicate a lack of responsibility in a hiring manager's eyes.

Id.

[97] *Id.*

[98] Ron Lewis, *Finance Quotes*, BRAINY QUOTE, http://www.brainyquote.com/quotes/topics/topic_finance3.html (last visited Nov. 11, 2013).

The problem of financial illiteracy starts at an individual level and then balloons out to negatively impact the larger American economy.[99] One might compare its effect to that of a vehicle crash during rush hour. When a single driver crashes into a beam on the highway, every car behind the initial one is impacted. Now, every car has to wait for emergency services to come see to the health of the first driver, tow away the car, and clean up any mess left on the road. Just one car can cause an extensive delay; now imagine if most of the cars on the road crashed on the drive home. The impact on traffic would be horrendous! This example is illustrative of the impact individuals can have on our economy. One person alone may cause minimal damage, but the statistics above show that almost *half* of Americans struggle to make financial ends meet, and *most* adults score a "C" on financial literacy tests.[100]

A recent example of financial illiteracy negatively impacting the American economy was the 2008 financial crisis.[101] The crisis, which came to be known as The Great Recession,[102] "demonstrated the lack of understanding of basic financial management information and skills, and the lack of access to fair, affordable, and appropriate financial products and services, which was costly to society and disproportionately impacted America's low- and middle-income earners."[103] A prime example was the bust of the booming housing industry.[104]

A. The Housing Bust

Many agree that financial illiteracy was a major factor in Americans losing their homes to foreclosure during the Great Recession.[105] When the housing market was at its height, millions of people were purchasing homes even though they "lacked the skills, knowledge, judgment, and experience to evaluate risk; make responsible buying and borrowing decisions; plan, save, and budget appropriately; and protect themselves against fraud, abuse, and conflicts of interest."[106] Millions of Americans simply lacked the knowledge necessary to appropriately evaluate the situation and financial position they were putting themselves in by purchasing a home.[107] How exactly did financial illiteracy play a role in the housing bust that kicked off the worst recession since the Great Depression?[108] The answer to this question will be discussed in three parts.

1. The False Belief that Real Estate Will Only Appreciate in Value

[99] *See* FORD & CROWTHER, *supra* note 26, at 123 ("If only the man himself were concerned, the cost of his maintenance and the profit he ought to have would be a simple matter. But he is not just an individual. He is a citizen, contributing to the welfare of a nation."); *see also Financial Literacy Hearing*, *supra* note 23 (discussing how individual financial literacy increases market efficiency).

[100] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3; *see also* Lusardi & Mitchell, *supra* note 47 (analyzing additional financial literacy data).

[101] Dinwoodie, *supra* note 24, at 182-83.

[102] DAVID B. GRUSKY, BRUCE WESTERN & CHRISTOPHER WIMER, THE GREAT RECESSION 5 (2011).

> The Great Recession [ ] stands out because it was brought on and prolonged by an unusually dramatic housing crisis; because this housing crisis in turn engendered a financial crisis that evoked memories of the Wall Street Crash of 1929; because the associated financial problems triggered a deep labor-market crisis that continues to this day; and because the federal government's response to these housing, financial, and labor-market crises was both substantial and multipronged.

Id.

[103] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4.

[104] Dinwoodie, *supra* note 24.

[105] *Id.*

[106] *Id.* at 183.

[107] *Id.*

[108] Thomas F. Siems, *Branding the Great Recession*, 1 FIN. INSIGHTS, May 31, 2012, at 1, 2, *available at* http://www.dallasfed.org/assets/documents/banking/firm/fi/fi1201.pdf (explaining that several economic indicators, including job losses and the drop in real GDP, illustrate that the 2008 economic downturn—eventually dubbed The Great Recession—was the "longest and deepest economic contraction . . . since the Great Depression").

First, Americans held the strong belief that home values would only continue to rise.[109] Despite a number of finance and economics experts warning of the falsity of that belief and the impending bust of the so-called housing bubble, many people were unaware, and others lacked the knowledge to evaluate what that could mean to their personal financial existence.[110] Consequently, borrowers signed mortgages that left them with payments they could barely afford in the belief that they could always refinance to better terms down the road.[111] People also put extra income into purchasing additional homes, believing their money would be safer if invested in real estate than the stock market or a bank.[112] As the subsequent recession proved, the belief in the durability of the housing market was misplaced. Perhaps with a better financial education, future generations can avoid repeating the same mistakes.

2. The Difficulty in Comprehending Contracts

Second, some Americans struggle to understand and apply the terms found in financial contracts.[113] For example, some people could not tell you the interest rate found in their mortgage contracts.[114] Even those who diligently try to understand such terms, and those trained to write contracts, have trouble understanding the legal jargon and contractual commitments being made.[115] Mortgage contracts can be particularly confusing, and there are a range of available mortgage options.[116] For example, many of the borrowers that entered into adjustable rate mortgages during the housing boom failed to understand that their payments could rise,[117] and even if they did understand, they were unable to assess the impact that the higher payment would have on their ability to remain in their home for the long term.[118]

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[109] Dinwoodie, *supra* note 24, at 194.

> The common belief that housing values would continually rise would likely have been less prevalent if more people had a better understanding of economics. People with a basic knowledge of economics are generally familiar with the concepts of market cycles and bubbles and are more likely to be skeptical of claims that the price of anything is guaranteed to rise in perpetuity.

Id.

[110] *Id.*; *see also* Gary Karz, *Who Predicted the Global Financial Crisis?*, INVESTOR HOME, http://investorhome.com/predicted.htm (last updated Oct. 14, 2013) (providing a list of fifty-eight individuals who are justified in stating that they warned in advance of the housing crash and financial crisis); Bruce Bartlett, *Who Saw The Housing Bubble Coming?*, FORBES (Jan. 2, 2009), http://www.forbes.com/2008/12/31/housing-bubble-crash-oped-cx_bb_0102bartlett.html ("The current economic crisis is raising many legitimate questions about the failure of economists and financial analysts to foresee the housing bubble and warn of its collapse. There were, in fact, many warnings dating back more than seven years--but in the euphoria of rising home prices, no one listened. As time went by and no crash occurred, many of those doing the warning lost credibility or decided that perhaps they were wrong and moved on to other issues.").

[111] Dinwoodie, *supra* note 24, at 196-98.

[112] *Id.* at 193-94; *see also* Carl Richards, *Some Investing Stories Sound Good Until You Analyze Them*, N.Y. TIMES (Jul. 29, 2013), http://www.nytimes.com/2013/07/29/your-money/some-investing-stories-sound-good-until-you-analyze-them.html?_r=0 (questioning why the younger generation is investing in real estate despite the lessons of the last ten years).

[113] Dinwoodie, *supra* note 24, at 195.

[114] FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 22.

[115] *Elizabeth Warren on Credit Card 'Tricks and Traps'* (PBS broadcast Jan. 2, 2009), transcript *available at* http://www.pbs.org/now/shows/501/credit-traps.html ("I teach contract law at Harvard Law School and I can't understand my credit card contract. I just can't. It's not designed to be read.").

[116] Dinwoodie, *supra* note 24, at 196-98. The chart *supra* note 83 provides examples of the range of mortgage options.

[117] Dinwoodie, *supra* note 24, at 197-98 ("For instance, many borrowers did not fully comprehend the basic structure of ARMs-- that the payment rates rise after the two or three years of low, introductory rates end. Of the borrowers that recognized that ARMs contained adjusting rates, many borrowers had no idea when or how the rates would change. As a result, thousands of ARM borrowers suffered so-called 'payment shocks,' where they were surprised and unprepared for how high the payments became when the rates adjusted. Many borrowers were also either unaware of or did not understand a number of other issues relating to their mortgages. For example, many borrowers did not know that their mortgages contained long-term prepayment penalties. Similarly, many borrowers did not understand the private mortgage insurance that they were required to obtain.").

[118] *Id.* at 195-96 ("Millions of Americans lacked the fundamental economic instincts and intuition to question whether they could realistically afford the homes that they purchased that had previously been outside of their range of affordability. A basic knowledge of the fundamentals of economics and personal finance would have made buyers more skeptical of whether they could realistically afford many of the homes that were purchased during the housing boom. Many borrowers failed to obey old adages such as 'there is no such thing as free money,' and 'some things are too good to be true.' It appears that borrowers overlooked other red flags as well,

The new sophisticated mortgage options available to sub-prime borrowers[119] contained extremely complex terms.[120] These loan options, generated by predatory lenders, were designed to target particularly financially vulnerable segments of the American population, namely the marginalized groups in society.[121] At the time, this was justified under the democratization of credit concept discussed above.[122] While that was likely the case for some lenders, for others the motivation was to simply to sign up more borrowers, regardless of their ability to repay the loan.[123] Lenders undertook a calculated risk that brought about disastrous results for the families forced from their homes.[124] Moreover, this calculated risk resulted in a disaster for the larger American economy, as the housing bust played a major role in the length and depth of the recession.[125]

3. Eagerness to Accept Loans and the Inability to Question the Lender

Third, financially illiterate Americans often fail to ask important questions of their lenders that would allow them to detect potential fraud and abuse, and to truly compare financial products.[126] As discussed, during the housing boom, many borrowers did not understand the contracts they signed or the agreements they were entering into—they saw the document merely as a means to getting them into a home they loved.[127] Because the financially illiterate usually have poor credit ratings, obtaining approval for a loan can be a challenge, and they are less inclined to believe they can get better terms elsewhere.[128] Individual experience tells them they

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such as some of the statements made to them by mortgage brokers, many of which would have likely raised questions in the minds of more financially literate people.").

[119] Melissa M. Ezarik, *Are You a Subprime Borrower?*, BANKRATE (Nov. 1, 2005), http://www.bankrate.com/brm/news/debt/debtcreditguide/subprime-trend1.asp.

> There's not a hard and fast rule of what constitutes "subprime," because these labels are really up to the lender. But in general, banking regulators consider subprime borrowers as those with:
>
> - a FICO score of 660 or lower
> - two or more 30-day delinquent payments in the past twelve months, or one 60-day delinquency in the past 24 months
> - a foreclosure or charge-off in the past 24 months
> - any bankruptcy in the last 60 months
> - qualifying debt-to-income ratios of 50 percent or higher
> - limited ability to cover monthly living expenses

Id.

[120] Dinwoodie, *supra* note 24, at 196-97 ("For example, in order to take into account the individual, borrower-specific circumstances of subprime borrowers, lenders commonly created mortgages that contained unique and borrower-specific terms and features. As a result of the sophisticated nature of mortgages and the prevalence of highly customized mortgages during this period, many borrowers did not understand their obligations under their mortgages.").

[121] *Id.*

[122] *See* Austin, *supra* note 67 ("Formal lenders would justify the extension of their financial products to debtors occupying the lowest socioeconomic tiers on the grounds that they, no less than the affluent, are deserving of the benefits of a democratization of credit, which is to say 'formal credit.'").

[123] Dinwoodie, *supra* note 24, at 200.

[124] *See id.* at 189-90 (explaining that lenders loosened their standards to attract subprime borrowers).

[125] *See id.* at 190-92 (explaining the impact the housing bust had on triggering the 2008 financial crisis); *see also* Iyanatul Islam & Sher Verick, *The Great Recession of 2008-2009: Causes, Consequences and Policy Responses, in* FROM THE GREAT RECESSION TO LABOUR MARKET RECOVERY 19, 19-20 (Iyanatil Islam & Sher Verick eds., 2010) (explaining that the housing bust triggered a financial crisis that was exacerbated by the financial sector's heavy involvement in the U.S. housing market); Siems, *supra* note 108 (describing the Great Recession as the longest and deepest economic retraction since the Great Depression).

[126] Dinwoodie, *supra* note 24, at 195-96.

[127] *Id.* at 196-98.; *see also* Austin, *supra* note 67, at 1249 (stating that "poorer consumers . . . often have little understanding of the contracts they sign").

[128] ALEXANDRA BASAK RUSSELL, WHAT GAVE RISE TO THE GLOBAL FINANCIAL CRISIS? 5 (2010), *available at* http://blogs.law.uiowa.edu/ebook/sites/default/files/Part_5_1.pdf ("Characteristics of subprime borrowers make them easy targets for unscrupulous mortgage brokers. For example, subprime borrowers often think that they do not have better options and are less likely to shop around for better loan terms. They often have low levels of education, which forces them to rely on the broker for an explanation of the terms. Finally, low-income borrowers often have little experience with mortgages—they have few family members,

may find rejection with formal lenders.[129] Moreover, how can one compare a product he or she does not understand, against another complex product he or she does not understand? In the same vein, such borrowers lacked the financial know-how to develop critical questions and seek clarification.[130] Even when these borrowers did ask questions, they lacked the skills necessary to determine if the answers given were truthful or accurate.[131] Unfortunately, using the previous hypothetical, the result of all the sub-prime lending was that a large number of cars on the highway all crashed simultaneously. When the housing bubble burst, many Americans poured expendable income into their mortgage payments, another poor financial choice when evidence pointed to an inability to sustain paying in the long term.[132] When that was not enough, millions of homes went into foreclosure and the economy contracted.[133] Unfortunately, as many Americans lost their homes, they continued to make poor financial decisions that rippled through the economy.

B. Lack of Financial Knowledge and the Contraction of the Economy

The impact of financial illiteracy spread beyond Americans losing their homes; the 2008 recession was driven deeper as many Americans continued to make unsound and short-sighted financial decisions. When people lost their homes to foreclosure, buyers became afraid to purchase new or existing homes or could no longer afford to, causing the construction industry to languish.[134] The money people poured into trying to save their homes resulted in less money

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friends, and community members who are long-term homeowners and from whom they can seek out mortgage advice."); *see also The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions: Hearing Before the S. Comm. on Banking, Housing, & Urban Affairs* 108th Cong. 560 (2003) (statement of Travis Plunkett, Legis. Director, Consumer Fed'n of Am.), *available at* 2003 WL 21744953 (discussing the market for subprime borrowers).

> Secondly, with the advent of ••risk-based pricing•• in the last decade, the way that credit is granted in this country has changed dramatically, but information provided to consumers under the FCRA about the nature of these loans has not kept up with this change. These days, a consumer with some credit blemishes is much more likely to be offered a higher-cost loan with less favorable terms than to be denied a loan. Misclassification as a high-risk, sub-prime borrower because of a credit report error or incomplete reporting by a furnisher (creditor) can cause consumers to pay tens or hundreds of thousands of dollars in higher interest rates.

Id.

[129] RUSSELL, *supra* note 128; Austin, *supra* note 67, at 1227-31.

[130] Dinwoodie, *supra* note 24, at 195-201.

[131] *Id.*

> In addition, financially illiterate borrowers were less able to spot issues where clarification was needed, and less able to formulate questions since they did not have a good understanding of the home buying process, mortgages, and financial terms and concepts. The ability to ask challenging and probing questions also helps borrowers protect themselves. Financially illiterate borrowers are more susceptible to predatory lending, fraud, and abuse. Virtually all experts agree that there would be less predatory lending if borrowers were more financially literate.

Id. at 199.

[132] Alan Dunn, *When Foreclosure Is a Good Option*, U.S. NEWS (Sept. 29, 2010), http://money.usnews.com/money/blogs/my-money/2010/09/29/when-foreclosure-is-a-good-option (analyzing the reasons Americans fought so hard to keep their homes and explaining why sometimes foreclosure is the better choice).

[133] Dinwoodie, *supra* note 24, at 191-92.

[134] RUSSELL, *supra* note 128, at 10; *see also* Alan Zible, *Home Construction Down; Potential New Foreclosures Could Hurt Housing Industry Further*, CHRISTIAN SCI. MONITOR (Jul. 21, 2010), http://www.csmonitor.com/From-the-news-wires/2010/0721/Home-construction-down-potential-new-foreclosures-could-hurt-housing-industry-further (discussing the impact of foreclosures on the construction industry).

> Home construction plunged in June [2010] to the lowest level since October, the Commerce Department said Tuesday. Driving the decline was a more than [twenty] percent drop in condominium and apartment construction, a small but volatile portion of the housing market. Construction of single-family homes, the largest part of the market, was essentially flat.

Id.

available to purchase other products.[135] Americans tightened their spending on clothing and dining-out at restaurants.[136] This had a ripple effect on the rest of the economy, causing staggering job loss among middle- and low-income people, thereby transplanting them into the ranks of the unemployed or underemployed.[137]

For survival, many unemployed Americans turned to government safety-net programs such as Medicaid, Supplemental Nutrition Assistance Program ("SNAP"), unemployment benefits, and Temporary Assistance for Needy Families ("TANF").[138] The problem of high unemployment compounded as more high school graduates and college students entered the job market and faced the inability to secure adequate employment.[139] Unemployed or underemployed college graduates must balance the income they feel they could secure with the decision to invest in a college education, illustrating the exorbitant cost of college tuition and the potential inability to escape student loan debt.[140] The consequence of reduced spending, un-or-underemployment, and the rising mountain of consumer debt, was that the United States and global economies contracted severely.[141] A number of countries around the world are still recovering from the financial catastrophe.[142] Accordingly, finance and economics education targeted at American youth would serve to avoid, or at least mitigate, some of the triggers that deepen economic contraction and hopefully prevent or at least shorten future economic crises.

C. Financial Illiteracy Is Not Only a Problem During a Crisis

As examined above, the housing bust, rising unemployment, and the contraction of the American economy illustrates the impact financial illiteracy can have on generating economic crises. Nonetheless, there is another dimension of the impact of financial illiteracy. Americans

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[135] *See, e.g.*, SPENCER COWAN & KATIE BUITRAGO, WOODSTOCK INST., STRUGGLING TO STAY AFLOAT: NEGATIVE EQUITY IN COMMUNITIES OF COLOR IN THE CHICAGO SIX COUNTRY REGION 1-2 (2012), http://www.woodstockinst.org/sites/default/files/attachments/stayingafloat_march2012_cowanbuitrago_0.pdf (providing examples of how underwater mortgages impact a homeowner's spending habits and the surrounding neighborhood).

[136] *U.S. Consumer Spending: Hard Times*, ECONOMIST (Oct. 25, 2011), http://www.economist.com/blogs/dailychart/2011/10/us-consumer-spending.

> Americans are spending less on clothes and eating out and more on household, fuel, bills, and healthcare, according to data from the Bureau of Labour Statistics. Between 2007 and 2010, average annual consumer spending per unit—defined as a family/shared household or single/financially independent person—fell by 3.1% to $48,109. Average prices over this period have risen by 5.2%, so real consumer spending has fallen by almost 8%. The recession and economic slowdown have reduced buying power and consumers are tightening their belts in many ways . . . .

Id.

[137] Dinwoodie, *supra* note 24, at 191-92 (describing the conditions of the financial crisis); *see* Michael Snyder, *The Census Revealed America's Fastest Growing Class: The Working Poor*, BUS. INSIDER (Dec. 27, 2010), http://www.businessinsider.com/the-working-poor-2010-12 (explaining that today one out of every three American families is low income); *see also* MORIN & MOTEL, *supra* note 21 (discussing the desire for full-time employment among lower class workers).

[138] Luhby, *supra* note 22. "The federal government sent a record $2 trillion to individuals in fiscal 2010, up nearly 75% from 10 years earlier." *Id.*

[139] Harnisch, *supra* note 28, at 14; *see also* Hope Yen, *In Weak Job Market, One in Two College Graduates Are Jobless or Underemployed*, HUFFINGTON POST (Apr. 22, 2012), http://www.huffingtonpost.com/2012/04/22/job-market-college-graduates_n_1443738.html (discussing the difficulty of securing a job beyond college and the need to take that into account when considering applying for student loans); Stacey Patton, *The Ph.D. Now Comes with Food Stamps*, CHRON. HIGHER EDUC. (May 6, 2012), http://chronicle.com/article/From-Graduate-School-to/131795 ("Of the 22 million Americans with master's degrees or higher in 2010, about 360,000 were receiving some kind of public assistance, according to the latest Current Population Survey released by the U.S. Census Bureau in March 2011.").

[140] Yen, *supra* note 139; CUNNINGHAM & KIENZL, *supra* note 87.

[141] Thayer Watkins, Dep't of Econ., San Jose St. Univ., *The Global Impact of the 2008-2009 Recession*, http://www.sjsu.edu/faculty/watkins/globalrec.htm (last visited Nov. 11, 2013) (analyzing the impact of the 2008-2009 Recession in nations across the globe). Watkins notes that not all countries were affected by the recession, including Sweden and the Russian Federation. *Id.* However, a great number were, and smaller economies were tremendously impacted. *Id.*

[142] *See* Jonathan Cable & Koh Gui Qing, *Global Economy-World Economic Recovery: Still Fragile, But on Track*, REUTERS (Sept. 2, 2013), http://www.reuters.com/article/2013/09/02/global-economy-idUSL6N0GY0X620130902 (looking at the state of recovery from the global financial crisis in various countries around the world).

who have to focus on survival because of inadequate management of their finances are unable to contribute fully to the economy.[143] Significantly, "[o]ur country loses valuable human capital as Americans, who struggle for daily financial survival, are unable to pursue higher education or focus their talents on innovation, entrepreneurship and intellectual contributions to the nation's progress."[144] Essentially, financial illiteracy not only generates economic crises, it can also stifle economic progress by diverting the resources necessary to develop America's youth to engage competitively in the global economy. This means that families may be stuck in poverty for generations.[145] Unfortunately, higher education still eludes many American families,[146] which also indicates the necessity for the introduction of financial education at a young age through the public school system. Without such early exposure, the nation loses valuable human capital that could be generated by incredibly intelligent and inventive people who are instead wrapped up in their struggle for financial survival.[147] If America hopes to remain competitive in the increasingly global world it must figure out how to harness its talent. Part of doing this is ensuring talented youths can propel themselves into a position to contribute to the economy and not be hamstrung by poor personal financial skills.[148]

The Great Recession is a clear example of how financial illiteracy generates economic instability.[149] Financial illiteracy also hinders talented Americans from fully focusing their talents on contributing to the economy in the form of skilled labor, innovation, entrepreneurship, and investment.[150] Additionally, economic stability is critical to America's national security.[151] The economy is the "foundation" for all government-run programs including the armed forces and the Department of Homeland Security.[152] Government officials recognized the growing financial

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[143] *See* PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4.
[144] *Id.*
[145] *See id.* at 3 ("Low- and moderate-income families, minority householders, and certain persistently under-resourced communities are likely lacking knowledge, experience and access to share with the next generation."). *See generally* KIYOSAKI & LECHTER, *supra* note 1 (explaining that poverty is often transgenerational).
[146] WILLIAM J. HUSSAR & TABITHA M. BAILEY, NAT'L CTR. FOR EDUC. STATISTICS, PROJECTIONS OF EDUCATION STATISTICS TO 2021: FORTIETH EDITION 19-23 (Jan. 2013), http://nces.ed.gov/pubs2013/2013008.pdf. While the percentage of students enrolled in college is steadily increasing, segments of the population lag behind, particularly Asian/Pacific Islanders, American Indian/Alaska Natives, African-Americans and Hispanics. *Id.*
[147] *See* PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4.
[148] Exec. Order No. 13455, 73 Fed. Reg. 4445 (Jan. 22, 2008).

> By the authority vested in me as President by the Constitution and the laws of the United States of America and to promote and enhance financial literacy among the American people, it is hereby ordered as follows:
>
> Section 1. Policy. To help keep America competitive and assist the American people in understanding and addressing financial matters, it is the policy of the Federal Government to encourage financial literacy among the American people.

Id.
[149] *Financial Literacy Hearing*, *supra* note 23.
[150] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4.
[151] Walter Pincus, *Keys to National Security Start with The Economy, Group Says*, WASH. POST (Apr. 13, 2010), http://www.washingtonpost.com/wp-dyn/content/article/2010/04/12/AR2010041203959.html.
[152] *Id.*

> Their assignment: Come up with a national security strategy for the United States. So a group of 15 military officers and government employees at the Industrial College of the Armed Forces studied the issue for months -- and decided that, first, consideration had to be given to the economy, which they found is heading toward disaster, even as the recession eases.
>
> The economy, the Seminar 11 group agreed in its report last month, is 'the foundation for everything else.'
>
> With the nation's yearly deficits running at about $1 trillion and the national debt expected to more than double by 2020, the group -- whose members included U.S. Army, Navy and Air Force officers; civilians from the State Department, Pentagon and U.S. Agency for International Development; and a Mexican Navy officer -- decided that tough actions should be taken beginning next year.

illiteracy problem well before the housing bubble burst and began taking steps to remediate it.[153] Legislation was passed to increase the amount and quality of existing financial education endeavors and to start studying the problem so that new strategies could be developed.[154] Also, as previously discussed, The Excellence in Education Act of 2002 focused on educating students in economics and personal finance.[155] The Fair and Accurate Credit Transactions Act of 2003 ("FACTA")[156] established FLEC,[157] which has since been active in researching and developing solutions to the financial literacy problem.[158] Furthermore, the Financial Literacy and Education Improvement Act became Title V of the FACTA Act.[159] Unfortunately, the reports analyzed thus far demonstrate that such efforts have in many ways fallen short of the mark, as Americans still struggle to answer fundamental finance questions or make sound financial decisions.[160] More must be done.

III. Leaving Financial Education to Parents Creates Financial Inequality

"Who would you want to be giving you advice? Somebody who doesn't have any money?"[161]
"If you're financially responsible, your children have a much better chance to grow up financially responsible."[162]

There is little disagreement that expanded access to financial education is necessary and should start at a young age because it takes time to instill concepts for lifetime application.[163] Nevertheless, there is no uniform agreement about how to accomplish that task.[164] While a number of programs exist to help educate Americans in personal finance,[165] such programs and their curricula are mostly optional.[166] Many public and private schools at all levels provide limited financial education, but the primary goal of financial education proponents seems to be for parents to voluntarily train themselves in financial concepts so that their knowledge trickles down to their children.[167] This is hopeful at best, and marginalizing at worst, as not everyone

Id.
153 Dinwoodie, *supra* note 24, at 202-03. For example, the Excellence in Education Act was passed in 2002 to increase the focus on economics and finance in schools. 20 U.S.C.A. § 7267a (West 2013).
154 Dinwoodie, *supra* note 24, at 202-03.
155 20 U.S.C.A. § 7267a.
156 Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159, Title V, 117 Stat. 1952.
157 20 U.S.C.A § 9702.

> (a) IN GENERAL.—There is established a commission to be known as the 'Financial Literacy and Education Commission'.
> (b) PURPOSE.—The Commission shall serve to improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education.

Id. § 9702(a)-(b)
158 *See generally* Fin. Literacy & Educ. Comm'n, *supra* note 25, at v-xv (laying out the Commission's work over the last few years).
159 Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159, Title V, 117 Stat. 1952.
160 FINRA Investor Educ. Found., *supra* note 12, at 5, 17-18.
161 Suze Orman, *Money Quotes*, Brainy Quote, http://www.brainyquote.com/quotes/authors/s/suze_orman_2.html#2PvqZvbTs0PYTHLH.99 (last visited Nov. 11, 2013).
162 *Id.*
163 *See* President's Advisory Council on Fin. Capability, *supra* note 4, at 7 ("Eighty-two percent of Americans and eighty-nine percent of teachers think personal finance should be taught to all students at least as early as high school.").
164 *See id.* at 3.
165 *See id.* (discussing the range of options available to adult learners). Examples of such programs include the National Endowment for Financial Education, the Native Financial Education Initiative, NYBA Financial Education Initiative, and the Clinton Global Initiative America.
166 *See* Brent Hunsberger, *Oregon's Stronger K-12 Financial Literacy Standards Still Aren't Ideal*, Oregonian (Sept. 6, 2012), http://www.oregonlive.com/finance/index.ssf/2012/09/oregons_stonger_k-12_financial.html (asserting that seeking financial knowledge is mostly voluntary in the United States).
167 *See* Fin. Literacy & Educ. Comm'n, *supra* note 25, at 6.

shares the same base of knowledge and experience.[168] Yet few studies discuss at length the inequality inherent in asking the financially illiterate to teach their children financial skills. Most people that realize they need to educate themselves in financial concepts are already smarter than the average consumer.[169] These parents are also already passing more financial knowledge on to their children by virtue of modeling sound financial decision-making.[170] For less knowledgeable parents, this is essentially asking them to learn what "they don't even know that they don't know."[171]

This is particularly troubling when one considers the statistics regarding financial illiteracy. If approximately half of all Americans struggle to earn enough to cover their monthly expenses, and most earn a "C" average at best when their financial know-how is put to the test, those same people should not be expected to teach their children financial concepts.[172] Essentially, parents who do not understand personal finance and basic economics are simply not going to be able to teach their children those concepts.[173] A person cannot teach something he or she does not know. Given that the majority of high school students are failing financial literacy tests,[174] it would seem that they are not learning these concepts from their parents or schools. Moreover, traditionally marginalized segments of society, such as low-wage earners, African-Americans, Hispanics, women, and the undereducated, experience the highest levels of financial illiteracy compared to other cultural groups, thus perpetuating the economic marginalization of already culturally marginalized youth.[175]

When faced with the daunting task of teaching foreign financial concepts, many parents choose to leave their child's financial education to society and experience.[176] The problem with allowing an individual's life experience to serve as the sole or primary teaching tool to gain financial literacy is that our system of credit is unforgiving, and some mistakes—like mountains of student loan debt—can take years or a lifetime to recover from, if one can recover at all.[177] The result is a life of financial instability and a lingering inability to valuably participate in the

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> The family is a very important agent of socialization for both factual and emotional uses of money (Rettig 1983). Parents can influence the development of consumer behavior in their children both directly and indirectly. Family mediates the effects of other socialization agents and family communication processes play an important role in this mediation process (Moschis 1985). Parents are the main source of financial knowledge (Hira, Loibl, & Schenk Jr. 2007). Parents are also the primary influence on the way children handle money, particularly their attitudes toward saving (Clarke et al. 2005). Children learn financial management behavior through observation and participation and through intentional instruction by socialization agents (Rettig and Mortenson 1986). Several possible socialization agents include family (parents, siblings, spouses, etc.), peers, school, the workplace, media, and culture.

Id. (citations included in original).

[168] *See* FORD & CROWTHER, *supra* note 26, at 184 ("Men are not equal in mentality or in physique. Any plan which starts with the assumption that men are or ought to be equal is unnatural and therefore unworkable.").

[169] KIYOSAKI & LECHTER, *supra* note 1, at 13.

[170] *Id.*

[171] Noam Chomsky & David Barsamian, *They Don't Even Know That They Don't Know*, *in* KEEPING THE RABBLE IN LINE: INTERVIEWS WITH DAVID BARSAMIAN 33, 35 (1994).

[172] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3.

[173] *Id.* ("Low- and moderate-income families, minority households, and certain persistently under-resourced communities are likely lacking knowledge, experience and access to share with the next generation. The challenges in such communities are great and multifaceted, and solutions must address complex needs."); Austin, *supra* note 67, at 1235-36.

[174] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3; Lusardi & Mitchell, *supra* note 47.

[175] *See* FINRA INVESTOR EDUC. FOUND., *supra* note 12, at 5 (describing the groups identified as marginalized).

[176] *See generally* KIYOSAKI & LECHTER, *supra* note 1 (detailing the importance of a sound financial education to a child's future).

[177] *See id.* at 9 (discussing how important financial education is to financial success); Jill Riepenhoff and Mike Wagner, *Investigation: Federal Student Loans Become Constant Burden*, COLUMBUS DISPATCH (Dec. 16, 2012), http://www.dispatch.com/content/stories/local/2012/12/16/constant.html (stating that student loan debt has overshadowed many borrowers for decades, in addition to driving down their credit scores and preventing them from purchasing cars, renting homes, and even from getting jobs).

economy.[178] This Article demonstrates that a large and growing number of Americans are financially illiterate, yet the current solution to resolving this problem is for parents to educate their children to make better financial decisions than the parents themselves are capable of making. Should America really leave the financial education of American youth to chance, or to those ill prepared to teach it?

IV. Public Schools Should Teach Financial Education to Ensure Equal Education and Combat Financial Instability

"Many people are in the dark when it comes to money, and I'm going to turn on the lights."[179]

The U.S. government has done a great deal to address the financial illiteracy problem, but more must be done if America hopes to reverse the rising tide of financial illiteracy in future generations.[180] This Article asserts that beyond just increasing the availability of educational tools, the government needs to pass comprehensive legislation that results in fully integrating financial concepts with school curricula beginning in kindergarten and continuing through high school graduation.[181] Because less than half the states require courses in economics or personal finance, many schools likely fail to provide a financial education, particularly as the economy recovers and it seems there is no need to continue combating a diminishing economic crisis.[182]

In order to truly combat economic inequality, financial education must be offered to as many American youths as possible.[183] Thus, new mandates at the federal level would be more effective in accomplishing that goal than those at the state or local level.[184] Waiting for a state-by-state or district-by-district solution only perpetuates the problem of inequality and continues the marginalization of certain segments of our society. One major challenge, however, is that America's education system is primarily run at the state and local level.[185] The Tenth Amendment to the U.S. Constitution provides that: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."[186] Designing public school curricula is one of the areas left to the

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[178] Austin, *supra* note 67, at 1256-57.
[179] Orman, *supra* note 161.
[180] Fin. Literacy & Educ. Comm'n, *supra* note 25, at vii; FINRA Investor Educ. Found., *supra* note 12, at 23; *see* Council for Econ. Educ., *supra* note 12.
[181] Fin. Literacy & Educ. Comm'n, *supra* note 25.
[182] *See* Council for Econ. Educ., *supra* note 12 (indicating a decline in the teaching of financial education since the economy began to recover in 2009).
[183] Fin. Literacy & Educ. Comm'n, *supra* note 25.
[184] *See* Council for Econ. Educ., *supra* note 12. Given that less than half the states require economics or personal finance classes, none of the existing laws truly make it worthwhile for states to implement financial education on a broad scale in exchange for much needed education funding. *See, e.g.*, 20 U.S.C.A. § 9701 (West 2013) ("encourage[ing] financial literacy" arguably does not provide schools with a real incentive to implement financial education programs). The federal government needs to draft legislation coupled with a funding package that is simply too good to refuse.

[185] *Overview: The Federal Role in Education*, U.S. Department of Educ., https://www2.ed.gov/about/overview/fed/role.html (last updated Feb. 13, 2012).
[186] US Const. amend. X; *see also* 20 U.S.C.A. § 9572(b) (limiting the ability of the Federal government to control school curriculum).

> Nothing in this subchapter may be construed to authorize an officer or employee of the Federal Government to mandate, direct, or control the curriculum, program of instruction, or allocation of State or local resources of a State, local educational agency, or school, or to mandate a State, or any subdivision thereof, to spend any funds or incur any costs not provided for under this subchapter.

Id.; Epperson v. Arkansas, 393 U.S. 97, 107 (1968).

> *The State's undoubted right to prescribe the curriculum for its public schools* does not carry with it the right to prohibit, on pain of criminal penalty, the teaching of a scientific theory or doctrine where that prohibition is based upon reasons that violate the First Amendment. It is much too late to argue that the State may impose

states under the Tenth Amendment.[187] This does not mean, however, that the federal government has no role in the creation of curricula and in determining important education topics.[188]

Traditionally, federal involvement in education has come into play to ensure equal education and to act as a facilitator of information about successes between districts.[189] Congress has propelled federal involvement in education by focusing on guaranteeing equality of access to educational content.[190] Congress encourages states to enact federal suggestions by offering federal funds for the implementation of educational programs.[191] One example of the federal government using the offer of funding to ensure equality (in the context of nutrition) is the National School Lunch Program.[192] States must meet the requirements set by the National School Lunch Act to qualify for federally funded school meals;[193] if they fail to meet the requirements they may lose future federal money and may have to pay back money already received.[194] This method has also been used to implement many of the policies in the No Child Left Behind Act.[195] Many schools rely on these federal funds to meet the basic educational needs of their students, particularly as state and local budgets around the nation have tightened.[196]

The Department of Education oversees the implementation of federal education programs at the state and local level.[197] The federal government provides roughly eleven percent of the cost of educating America's children through funding provided by the Department of Education

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> upon the teachers in its schools any conditions that it chooses, however restrictive they may be of constitutional guarantees.

Id. (emphasis added).

[187] Russell Dennis, *The Role of the Federal Government in Public Education in the United States* (2000), http://www.departments.bucknell.edu/edu/ed370/federal.html.

[188] *Overview: The Federal Role in Education*, *supra* note 185. Prior to the 1960s, the Federal government did not involve itself in education issues heavily. *Id.* Since that point involvement via legislation has increased dramatically. *Id.*

[189] *Id.*

[190] *Id.*

[191] Dennis, *supra* note 187.

[192] 42 U.S.C.A. §§ 1751-1769 (West 2013).

[193] *Id.* § 1756.

> (a) State revenue matching requirements; special provisions for lower than average income per capita States
> (1) Funds appropriated to carry out section 1753 of this title during any fiscal year shall be available for payment to the States for disbursement by State educational agencies in accordance with such agreements, not inconsistent with the provisions of this chapter, as may be entered into by the Secretary and such State educational agencies for the purpose of assisting schools within the States in obtaining agricultural commodities and other foods for consumption by children in furtherance of the school lunch program authorized under this chapter.

Id. § 1756(a)(1).

[194] 42 U.S.C.A. § 1769c(b)(4), (e).

[195] 20 U.S.C.A. §§ 6331-6339 (West 2013) (providing for the allocation of funds to states and local districts that comply with the strictures of the NCLB Act); *see also id.* § 7243 (authorizing the Federal government to help schools meet challenging academic standards).

> (a) Authorization
> The Secretary is authorized to support nationally significant programs to improve the quality of elementary and secondary education at the State and local levels and help all children meet challenging State academic content and student academic achievement standards. The Secretary may carry out such programs directly, or through grants to, or contracts with--
> (1) States or local educational agencies;
> (2) institutions of higher education; and
> (3) other public and private agencies, organizations, and institutions.

Id. § 7243(a).

[196] Claudio Sanchez, *New School Year Brings Sequestration Pain for Many Districts*, NPR (Sept. 7, 2013), http://wap.npr.org/news/U.S./219870250?start=10 ("Lancaster[, PA] is one of many districts starting the school year hit hard by the $3 billion cut from federal education funds education funds due to sequestration. Many school districts, particularly in poor areas where schools rely more heavily on federal funding, are starting the year with bare-bones budgets and lots of uncertainty.").

[197] *Overview: The Federal Role in Education*, *supra* note 185.

("ED") and other federal agencies.[198] While eleven percent is a relatively small portion of the total education funding, federal funding heavily impacts education planning because the funds are targeted to areas where they can do the most good.[199] State and local districts rely on the federal funds to meet their yearly budgetary needs.[200] The success of past legislation demonstrates that states are willing to implement federal level educational directives in exchange for federal funds:

> [a]lthough ED's share of total education funding in the U.S. is relatively small, ED works hard to get a big bang for its taxpayer-provided bucks by targeting its funds where they can do the most good. This targeting reflects the historical development of the Federal role in education as a kind of "emergency response system," a means of filling gaps in State and local support for education when critical national needs arise.[201]

As stated, to ensure equity in curricula across the nation, the federal government should be involved in the design of financial literacy curricula. While it is not necessary or practical that it design the curricula to be used by every state and individual district, the government should set out basic standards that the state financial education curricula must meet in order to qualify for federal funding.[202] The basic educational standards identified in the Financial Literacy and Education Improvement Act of 2003 suggests teaching the following concepts to American school children:

> (A) [how to] create household budgets, initiate savings plans, and make strategic investment decisions for education, retirement, home ownership, wealth building, or other savings goals;
> (B) [how to] manage spending, credit, and debt, including credit card debt, effectively;
> (C) [understanding] of the availability and significance of credit reports and credit scores in obtaining credit, the importance of their accuracy (and how to correct inaccuracies), their effect on credit terms, and the effect common financial decisions may have on credit scores;
> (D) [how to] ascertain fair and favorable credit terms;
> (E) [what they are and how to] avoid abusive, predatory, or deceptive credit offers and financial products;
> (F) [how to] understand, evaluate, and compare financial products, services, and opportunities;
> (G) [how to] understand resources that ought to be easily accessible and affordable, and that inform and educate investors as to their rights and avenues of recourse when an investor believes his or her rights have been violated by unprofessional conduct of market intermediaries. . . .[203]

These standards were emphasized to improve a person's ability to successfully navigate the U.S. economy.[204] These standards were identified from the input of a wide range of financial

[198] *Id.*
[199] *Id.*
[200] *Id.*
[201] *Id.*
[202] *See generally* FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at 87-90 (identifying some curriculum integration ideas and then examining the approaches tried by different states).
[203] 20 U.S.C.A. § 9703(a)(2) (West 2013).
[204] *Id.*

education experts and from Americans across the nation,[205] resulting in a fairly comprehensive listing of necessary financial skills.

Some additional challenges to the implementation of a federal financial public education curriculum include the standard litany of complaints offered in regards to adding concepts to education curricula.[206] For example, one may argue that there is not enough time in the school day.[207] This is undoubtedly true.[208] However, financial concepts can be added to existing subjects and provide a real-world connection between the subject matter and students.[209] For example, in math class, younger students could learn addition and subtraction with dollars and coins, and older students could learn percentages by discussing interest rates.[210] Economic concepts and the history of money could be incorporated into social studies curriculum as well.[211] In language arts, kids could read books about money and financial concepts, and write financial goals for their future.[212] Many of these integration techniques are already happening in some schools;[213] they just need to be expanded for increased consistency and education equality.

Some people also argue it is not the role of schools to provide a financial education.[214] For all the reasons discussed in this Article, this thinking is shortsighted. Certainly, both parents and the community have a major role to play in this type of education.[215] But not all parents can teach these concepts equally. Importantly, by leaving financial education to parents we are permitting long-term damage to the wider American economy in the form of lost human capital and economic crises generated, at least in part, by poor decision-making.[216] Along these same lines, one argument is that financial concepts are better taught in colleges and universities.[217] The problem with waiting to teach financial concepts until college is that many Americans do not attend college, which is especially true for the already marginalized youth in America society, meaning they would only be left further behind financially speaking.[218] Though Americans may

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[205] *Id.* § 9701.

[206] *See* FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at 84 (analyzing the challenges of including financial education in the curriculum).

[207] *Id.*

[208] *Id.*

[209] *Id.* at 84-85.

[210] *Id.* at 85.

[211] *Id.* at 86-87.

[212] *See id.* at 86 (suggesting lesson plans could integrate newspaper into the curricula with students reading about developments in the business world).

[213] *Id.* at 85-87.

[214] Kadlec, *supra* note 13.

> Teachers have enough to do. That's what a lot of people say when it is suggested that we incorporate financial education into our school system. Let educators focus on the three Rs; leave lessons in personal finance to parents. After all, every family's values and resources are different. At first blush, this approach seems to make sense. Some researchers believe that kids who graduate from college tend to figure out personal finance anyway. Meanwhile, just one in five teachers feels qualified to teach kids about money. So let schools do what they do best: prepare students for higher education. But the very suggestion that financial education has no place in our schools rankles financial literacy advocates and elicited groans from a recent panel diving into the issue.

Id. On one website, twenty-five percent of respondents said "no" in response to the question: "Should public high schools start to focus more on teaching practical skill sets, such as balancing checkbooks and investing, versus subjects such as American history and art?" *Education Opinions*, DEBATE.ORG, http://www.debate.org/opinions/should-public-high-schools-start-to-focus-more-on-teaching-practical-skill-sets-such-as-balancing-checkbooks-and-investing-versus-subjects-such-as-american-history-and-art (last visited Nov. 11, 2013). It should be noted that many of the "no" responses objected to the form of the question, and several clarified that they thought both should be taught. *Id.*

[215] FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at 89.

[216] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4.

[217] Harnisch, *supra* note 28, at 3.

[218] *Id.*

> Despite the rapidly changing, increasingly sophisticated array of financial decisions confronting Americans today, there still exists widespread levels of financial illiteracy—especially among low-income and minority

not all be concerned with a student's individual failure, Americans simply cannot afford to ignore the wider systemic economic failures that are caused in part by financial illiteracy.[219]

In sum, there are many challenges to providing a financial education to America's youth, but these challenges must be faced head-on if Americans are to avoid the consequences of financial illiteracy.[220] The school system is already designed to provide an education; a financial education is such a critical component of our survival and success that it rightfully belongs as a required subject in America's schools.[221] Unfortunately, there is no structured educational platform for mandating the dissemination of financial information to American adults, though a range of financial education options exist for Americans willing to seek them out.[222] If Congress institutes comprehensive financial education now, hopefully America can turn the financial illiteracy problem around in a generation.[223]

V. CONCLUSION

The ability to understand and manage money is critical to meeting one's basic needs, and supporting one's ability to do more than just survive. Undoubtedly, the tools for the smart use of something so basic to our existence should be given far more attention and be better incorporated into American education. The failure to provide a basic financial education has resulted in widespread financial illiteracy, particularly since America's financial landscape entered into a period of rapid change beginning in the 1980s.[224] The result of this failure has and will continue to lead, to the loss of talented human capital and ultimately to economic crisis.[225]

The current solutions, including the legislation and the tools offered primarily to adults as discussed throughout this article, expand access to financial education materials and fund projects to help find new solutions.[226] To ensure a financially literate society we must teach financial

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> populations. This divergence between more complex consumer decisions and financial illiteracy has led to a rising trend of suboptimal, often unsustainable consumer behaviors, resulting in record-high levels of debt and record low-levels of economic security for individuals, families and communities throughout the nation.

Id. Harnisch acknowledges that low-income and minority populations are the hardest hit by financial illiteracy, but goes on to propose that college is the best place to provide a financial education. *Id.* While the number of students attending college is increasing, these population groups are underrepresented in American colleges and universities. HUSSAR & BAILEY, *supra* note 146, at 23. Although the percentage of students enrolled in is steadily increasing, there are still segments of the population that lag behind, particularly Asian/Pacific Islanders, American Indian/Alaska Natives, African-Americans, and Hispanics. *Id. But see* Harnisch, *supra* note 28.

> Given the recognized need for increased financial literacy and improved consumer behavior, policymakers have focused on mandating financial education and consumer economics curricula in primary and secondary schools, but inconclusive or null results in financial literacy tests have led some to reconsider this approach. Valid concerns remain that students do not pay attention to or retain these lessons because many of them are not financially independent and do not make key financial decisions at that point in their lives. Further, financial education as a stand-alone measure at the K-12 level may not be enough to match the complexities and rapidly changing nature of the 21st century marketplace.

Id. at 2.

[219] *Financial Literacy Hearing*, *supra* note 23.

[220] *See* FIN. LITERACY & EDUC. COMM'N, *supra* note 25, at 83-84.

[221] *Id.*

[222] PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4, at 3.

[223] *Id.* at 3-4. This language and goal is taken from First Lady Michelle Obama's *Let's Move!* campaign. *Learn the Facts*, LET'S MOVE!, http://www.letsmove.gov/learn-facts/epidemic-childhood-obesity (last visited Nov. 11, 2013) ("*Let's Move!* is a comprehensive initiative, launched by the First Lady, dedicated to solving the challenge of childhood obesity within a generation, so that children born today will grow up healthier and able to pursue their dreams."). America could set the same goal, to solve the financial illiteracy problem within a generation through federal government action to get financial education into schools nationwide.

[224] *See* Harnisch, *supra* note 28, at 8.

[225] *See* PRESIDENT'S ADVISORY COUNCIL ON FIN. CAPABILITY, *supra* note 4 (discussing the importance of human capital to the economy).

[226] *See id.* at 6-8.

concepts starting in kindergarten and build on those concepts through high school graduation to ensure that America's youth has the financial know-how to take charge of their future.[227] Yet, despite this consensus, little has been done at the federal level—and ground is being lost at the state level—to implement and integrate financial education curricula into the school day. The federal government should enact legislation that provides much needed education funding to state and local governments in exchange for their meeting basic financial education goals. While education funding can be expensive, the cost to the economy of failing to remediate the financial illiteracy problem will prove far more in the long run.[228] If America truly wishes to live up to its values of equality and prosperity for all, the education system must provide every person with the tools to reach for the American Dream—and financial literacy is one of the most critical tools on that tool belt.

[227] FIN. LITERACY & EDUC. COMM'N, *supra* note 25.
[228] *See* Harnisch, *supra* note 28, at 7-10 (listing various ways that bad financial decisions impact the larger economy, including, for example, poor retirement planning that increases dependence on social security).