The Role of the State in Addressing Financial Literacy

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ABSTRACT:

The purpose of this exploratory research paper is to discuss the individual and societal issues surrounding financial literacy, to demonstrate how these issues affect college graduates, and to utilize John Kingdon's policy theory to evaluate the State of New Jersey's readiness for legislation that would require the completion of a financial literacy course in order for students to graduate in institutions of higher education within the State of New Jersey.

I. Introduction

Student loan debt in the United States totals $1,446, 247, 713,650. Four out of ten millennials say they are overwhelmed with debt and more than half say they live paycheck to paycheck (Presents the 2016, n.d.). Because of these alarming statistics, developing fiscal responsibility during a pivotal period such as college seems like an important strategy for long-term financial success and enacting policies to ensure that success seems like the perfect answer. If financial literacy is integral to the growth of young adults and our economy, then why is more not being done to promote it? In fact, this has been an issue that has been teasing the political agenda for years and has made its way to New Jersey in the form of Assembly Bill A2276. If passed, the bill would require undergraduates at public institutions of higher education to take a mandatory finance class to graduate.

However, to understand and predict the likelihood of this bill or any policy being enacted, we must first "conceive of a three process stream flowing through the system- streams of problems, policies and politics", as renowned policy expert John Kingdon explains and related it the topic of financial literacy in the State of New Jersey (Kingdon, 2011, p. 19). By using Kingdon's theoretical framework, this paper seeks to analyze the readiness of the state for this law and to navigate and recommend solutions to the problem.

II. A Snapshot of Financial Literacy

As Kingdon (2011) states, “Problems are not self-evident by the indicators. They need a little push to get the attention of people in and around government. That push is sometimes provided by a focusing event like a crisis or disaster that coms along to call attention to the problem” (p. 95). In 2008, the recession was that crisis that caused an increase in awareness on the importance of acquiring financial skills in life. During that time, many ordinary people purchased houses well beyond their means and signed for mortgages they did not understand. As a result, mortgage defaults, foreclosure rates, personal credit defaults and bankruptcy rates reached near record highs. With the spread of alternative financial services like auto title loans, payday loans, pawnshops, rent-to-own shops and tax refund loans; the American public is constantly bombarded with a myriad of opportunities for financial failure (Lusardi & Mitchell, 2014).

John Pelletier (2013), Director of the Center for Financial Literacy at Champlain College, states “most college students borrow to finance their education, yet often do so without fully understanding how much debt is appropriate for their education or the connection between their area of study and the income level that they can expect upon graduation. Many students attend college without understanding financial aid, loans, debt, credit, inflation and budgeting” (p.6)

Additionally, according to the 2013 Consumer Financial Literacy Survey, almost fifty-percent of adults worry that they do not have enough rainy day savings for an emergency, 31 percent have not saved anything for retirement, and nearly 61 million Americans do not pay their bills on time. Further, a link has been found between financial education and economic mobility, even at the most basic level (2013 Consumer Financial, 2013). Having the evidence that almost half of the adult population may not have the ability to sustain and emergency constitutes a societal problem.

Douglas Bernheim was among the first to emphasize that households in America were deficient in the financial knowledge and that they also used informal rules of thumb when making economic decisions. It is further reported "that poorer, less educated, and immigrant households …were more likely to make financial errors" (Lusardi & Mitchell, 2014, p. 22).

Like Bernheim, academic professors Annamaria Lusardi and Olivia Mitchell relayed that that the least financially literate are also more likely to have costly mortgages. "Those with lower income and less education (characteristics strongly related to financial illiteracy) were less likely to re-finance their mortgages during a period of falling interest rates" (p. 24). In cases like these, hard times are not temporary, as poor decision-making becomes cyclical and dealing with economic hardship becomes a programmed way of life.

Experts see this self-perpetuating problem and propose that education is the key to freedom from it. Former U.S. Federal Reserve Board Chairman Ben Bernanke confirmed this idea by reflecting on the need for financial literacy in the future:

> In our dynamic and complex financial marketplace, financial education must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances and to take advantage of products and services that best meet their goals. Well-informed consumers, who can serve as their own advocates, are one of the best lines of

> defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive (Lusardi & Mitchell, 2014, p. 49).

As time goes on, society is coming to the realization that the cost of financial ignorance not only affects people as individuals, but it affects the nation as whole. In the United States, simulations from a life-cycle model that incorporates financial literacy shows that financial literacy alone can explain more than half the observed wealth inequality (Lusardi, Michaud & Mitchell, 2013).

Many studies have also found that college students' financial stability is positively correlated with academic progress, mental and physical wellbeing, and the ability to find employment after graduation. With high unemployment rates in the State, it is necessary that the students in New Jersey are equipped with the tools necessary to succeed in the real world. According to the work of Peng, Bartholomae, Fox, & Cravener (2007):

> Findings from the hierarchical regressions lend support to the notion that participating in a college personal finance class improves investment knowledge. Participants who took a college course performed better on the investment knowledge test. Interestingly, participating in a personal finance class in college appears more effective in terms of enhancing one's investment knowledge than participating in a high school personal finance course (p. 280).

To lay further claim to those statements, there have been studies that show that when students were required to take a course in financial education, they performed much better than students in states with no personal finance mandates (Lusardi & Mitchell, 2014, p. 38). This leads us to wonder why, despite the supporting evidence, financial literacy is not a priority on the agenda.

Financial literacy is a local and national issue. On a national level, by 2014, seventeen states approved legislation or adopted resolutions regarding financial literacy. Among them, California required the state board of education to integrate financial literacy into existing curriculum (Prah, 2014). In 2009, the State of New Jersey amended the high school graduation requirement to include 2.5 credits of “financial, economic, business and entrepreneurial literacy” for all those entering Grade 9 the following year, but no provisions have been made to continue this learning track into college (Stockton University, n.d.). As part of a national strategy to increase financial security, some people believe that institutions of higher education have an important responsibility to our nation’s young citizens. However, there is no evidence that any colleges in the United States require a course on financial literacy for all undergraduates and not just courses specific to a major. More specifically, in the State of New Jersey, there are no colleges who require a course in financial literacy be completed as a requirement for graduation, even though recent studies show that graduates of Rutgers, the State University of New Jersey, are some of the highest generators of debt of any public university in the country (Munoz, 2015).

III. Methodology

Along with a qualitative analysis of secondary resources relating to financial literacy in education, a portion of the data included in this paper was collected through in-person semi-structured interviews. The participants were chosen due to their experience in the fields of policy and curriculum setting in a public institution of higher education. They were contacted by email and telephone to gauge their interest in participating. Contact was also made to the primary sponsors of Assembly Bill A 2276 and their legislative staffers however, they did not respond.

IV. Findings

As previously discussed, in the text, “Agenda, Alternatives and Public Policies”, John Kingdon (2011) speaks about the “window of opportunity for action on given initiatives, and how they only stay open for a short time” (p. 26). Because of the somewhat recent recession and the fact that the academic field is making great strides with the implementation in high schools, there is always a possibility for a window of opportunity in New Jersey to join in and become one of the few states leading the current trend towards fiscal responsibility. Stakeholders who would be affected by this bill vary, and they include students, parents, legislators, and institutions of higher education in the State of New Jersey, as they all would be affected by this potential change. Two seasoned Democrats who have served on the New Jersey General Assembly since 2006, Assemblywoman Valerie Vaineri Huttle and Assemblyman Gary Schaer, saw a window of opportunity and have taken it on as their priority by introducing Assembly Bill A2276. The proposed New Jersey bill A2276 requires students enrolled in public institutions of higher education to complete a course on financial literacy. On February 4, 2016, this bill was introduced in the Assembly and referred to the Assembly Higher Education Committee (N.J. Legis. Assemb, 2016). It is important to also note that in February 2015, a similar bill, A4214, was sponsored by Valerie Vaineri Huttle and Joseph Lagana, bill A4214, and was introduced but no action was taken after its referral to the Assembly Higher Education Committee.

For clarification, Assembly Bill 2276 statement is as follows:

> This bill requires students enrolled in public institutions of higher education to complete a course on financial literacy. Under the bill, beginning with the 2017-2018 academic year, the governing board of a public institution of higher education will require a full-time undergraduate student to complete the course prior to graduating from the institution.
>
> Under the bill, the purpose of the financial literacy course will be to increase student awareness of issues associated with, but not limited to, debt management, taxes, insurance, the creation of savings plans, strategic investment, and budgeting (N.J. Legis. Assembly, 2016).

After its introduction, the current bill was referred to the Assembly Higher Education Committee, where it received six favorable votes from Democrats and three abstentions from Republicans. On February 22, 2016, it was reported out of Assembly Committee for a second reading. According to New Jersey legislative process, when scheduled by the President or Speaker, the bill will be given a third reading and considered on the floor.

V. Discussion: Readiness in the State of New Jersey

A bill like this has the potential to create course requirements that could increase student awareness regarding savings plans, retirement, smart spending, debt management, and investments and cultivate a culture of financially responsible citizens in our state and beyond. Higher rates of financial literacy could also have an impact on lower college dropout rates as students are better equipped to manage their finances, including tuition, dining and loans. The sponsors of this bill have notable power in the legislature and have made great strides in other areas important to them.

However, there are several roadblocks determining the ultimate fate of this bill. First and foremost, according to interview participant Mr. David Weinstein, Vice President for State Government Affairs at Rutgers University, every year nearly four thousand bills are introduced in the New Jersey legislature with a very small fraction making it through. Everyone is in competition for a place on the governmental agenda. Next, aligned with Kingdon's theory- there must be congruence with community members. With no notable interest groups advocating and publicizing on behalf of this bill, it's lacking the strong support base that other bills competing for the floor may currently have. Additionally, the current student climate is focusing on topics of immigration and the potential threat to current Rutgers students under the Trump administration. While finances will always be one of the hot topics among college students, it seems as though their priorities have shifted away for the moment and the financial argument has faded in the background.

Additionally, according to Mr. Weinstein, the history of the bill shows that while it has gotten further this past session than ever before, the likelihood of it dying at the committee is rather high. Mr. Weinstein pointed to the long-standing relationship Rutgers, the flagship university of New Jersey, has with the state in areas like governance, budget and academics. He noted that while Rutgers has a good working relationship with the Governor and Trenton, it has always maintained a delicate balance with its designation as the State University of New Jersey while also exercising independent judgment, avoiding political influence and control in areas of governance, academics and spending (D.Weinstein, personal communication, May 5, 2017). This can be seen when reviewing the Rutgers Act of 1956, a piece of legislation that approved the contract between the state and the board of trustees "to fully and formally establish Rutgers as The State University of New Jersey" and to establish the Board of Governors. In this Act, under section 18A:65-27. Public policy of state, it is declared that "the corporation and the university shall be and continue to be given a high degree of self-government and that the government and conduct of the corporation and the university shall be free of partisanship"(18A:65-27). Forcing curriculum by law on Rutgers could be a breach of a contract that explicitly declares that it will have a high degree of self-governance.

Additionally, over time the state appropriations for Rutgers has dwindled down to less than a quarter of Rutgers' revenue. While this may be grim for students whose tuition increases make up for the loss of funding over time, less money from the state could mean that the state has even less of a right to dictate decisions that Rutgers makes, including in areas like curriculum (Bramwell, 2017).

Further, as Kingdon (2011) states, "after interest groups, the collection of academics, researchers and consultants is the next most important set of nongovernmental actors. One finds their traces throughout the policy process." (p. 53) According to interview participant from Rutgers Academic Affairs who requested anonymity, this bill may experience major pushback with a university's administration and professors, as it would be viewed as the state micromanagement over the school. She also noted that we are currently at a time when schools are facing pressure to help students graduate on time as many students do not attain degrees in the typical four year time period. She stated that the administration would likely be reluctant to support requirements because they would increase a student's workload, and further mentioned the recent push to reduce the number of core curriculum requirements (Anonymous, personal communication, May 3, 2017).

There also may be some hesitation from institutions facing the mandate as they may look to the state for funding of the development, rollout and staff needs to support this curriculum and there may be challenges in establishing uniform standards for such a class among the participating universities.

VI. Recommendations

Because of the many stakeholders involved, this is not a black and white issue. The sheer fact that New Jersey Assembly Bill 2276 exists and is not the first time legislators have come forth with this agenda item shows that it still is an important topic that needs to be discussed. While we do know that promoting financial literacy could open the door for many opportunities for students and ignoring it would be detrimental to economic future of this, mandating course requirements is not the only way to do it. A more feasible way of approaching the issue may be to incrementally introduce it in the college setting. The New Jersey College Affordability Study Commission, which was created by state law in February 2015, was tasked with studying and making recommendations to increase the affordability of higher education in New Jersey. "The commission is examining topics such as the State's student loan program (NJCLASS), the state's 529 college savings program (NJBEST), accelerated and affordable degree programs, a Pay It Forward Pilot Program, and any other proposal that may make college more affordable in New Jersey" (Barchi, et al. 2016) The Senate president and Assembly speaker appoint twelve members to the committee and they are a mix of lawmakers, public and private college presidents and faculty, members of the public and a current student (Barchi, et al. 2016). It may be in the best interest of stakeholders in New Jersey who are concerned with financial literacy to promote for the continued engagement with the Commission to determine future recommendations regarding financial literacy. Having administrative representatives from an array of New Jersey schools could prompt each institution to shift the focus away from mandated curriculum and to introduce financial literacy assistance incrementally through workshops, seminars and sponsored events with local banks on campus. Advocating at the state level for funding to institutions that continue building upon the groundwork laid out in high school would make it feasible and more likely to occur.

Additionally, on a national level, it seems as though the trend of high schools that are adopting the financial literacy requirement is on an upswing and could be where the focus should remain. Perhaps this trend is a product of the higher percentage of state funding that secondary schools receive in comparison to public colleges and universities; therefore, which gives the state more of an active role in curriculum choices. Lastly, reaching children before they are at the college age, where they are forced to make major financial decisions and equipping them with the proper tools ahead of time to make sound financial decisions may be a more feasible approach.

VII. Conclusion:

Education continues to be an important matter in public policy and the focus on integrating financial curriculum that can be directly applied to the “real world” post-college is important. While the costs and tradeoffs of increasing financial literacy are likely to be substantial, so too are the costs of allowing inequality to continue by keeping our citizens uneducated in matters that are pertinent to not only those as individuals, but to our society as a whole. The problem of financial literacy is one that can be addressed in institutes of higher education but as the research of this paper concludes, creating a law mandating it may not be the most feasible option, specifically not in the State of New Jersey. As Kingdon (2011) writes, “ instead of beginning consideration of each program or issue afresh, decision makers take what they are currently doing as given, and make small incremental, marginal adjustments in that current behavior” (p. 79). As with many policies, incremental changes would allow stakeholders to progress in this area without compromising the unique and delicate relationship between a state government and it’s universities.

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