

## Positive Money's response to the Education Committee inquiry: Financial Education

Positive Money welcomes the opportunity to respond to this Education Committee call for evidence.

[Positive Money](#) is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and supporter donations.

Our submission draws on our work since 2010 to educate and empower the public on money and the financial system, and on the work of other organisations in this area. We produce educational resources and engage with the public on issues surrounding our money and banking system. Examples include educational [videos](#), [webinars](#) and projects such as the [People's Panel on the Cost of Living](#) that we recently supported alongside Cheshire Council.

**We shared our submission for comment with our network of individual supporters, and attach the 1,096 signatures received that support our recommendations, along with comments provided by signatories. This includes 274 teachers (36 of which are former or retired teachers), 11 school administrators and governors, and 2 pupils.**

Key points:

- Key aspects of how money works in the UK, and the related role of economic institutions and economic policymaking, are currently missing from the curriculum.
- Financial education ought to be considered more broadly than personal financial management alone.
- Since the broader functioning of the monetary, financial and economic system has important implications for individuals' financial circumstances and choices, education around this wider context should be considered a part of financial education.
- Education around these areas is an important basis for democratic engagement, particularly in the context of significant changes to our monetary and financial system.
- There is demand from the public for greater education around the financial and economic system more broadly.

### **1.0 What should we be teaching young people about money? What should financial education include and are there any aspects missing from the current provision?**

#### 1.1 Defining financial education more broadly than personal finances.

- It is important to note that the definition of 'financial' or 'economic' education (or 'literacy'), which are often used interchangeably is contested, and that there are various definitions within this, as highlighted by the economics educational charity *Economy*.<sup>1</sup> Often, definitions tend to focus on personal financial management, and we note that the

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<sup>1</sup> *Economy* (2021). What's the economy? Exploring how people feel about economics and why we need to improve it. Read [online](#).

Committee's Call for Evidence defines financial education as, '*teaching children and young people skills and knowledge to manage their financial decisions*'.<sup>2</sup>

- Our submission makes the case for considering financial education in broader terms than young people's personal financial sphere, and instead as something that ought to provide young people with the knowledge, tools and understanding necessary to form an informed, critical perspective on economic options open to us in our democracy. As expanded upon below, we argue that a financial education should not only leave young people equipped to make informed decisions in their personal financial lives, but also to engage with key democratic issues of economic and financial policy that are inherently relevant to individuals' financial circumstances.

1.2 Financial education should include an understanding of what money is and where it comes from.

- The vast majority of money (in the UK economy) is created by private banks when they make loans, as outlined in the book 'Where Does Money Come From?'<sup>3</sup> and as explained by the Bank of England in 2014<sup>4</sup> and on the Bank of England's current website<sup>5</sup>, and by others such as the Bank for International Settlements.<sup>6</sup>
- There remains a common misconception that all money is created by the government, and that banks' give loans by lending out other customers' deposits. In reality, cash is the only form of state-issued money available to the public. The vast majority of money held by the public are deposits issued by commercial banks. Rather than banks' lending out depositors money, new money in the form of deposits is created by banks when loans are made. This money is subsequently destroyed by the repayment of loans.
- Misunderstandings of money, its creation, and what commercial banks do, remain prevalent. For instance, polling commissioned by Positive Money in 2014 found that only 13% of MPs polled were aware that bank loans create money.<sup>7</sup> Updated polling in 2017 put this figure at only a minor increase to 15%.<sup>8</sup>
- An understanding of this is particularly important in the context of profound ongoing changes to the UK's monetary system including the declining use of cash and the increasing reliance on privately-issued bank money as a means of payment, as well as the rapid growth of a largely unregulated crypto-asset industry.<sup>9</sup>
- The potential introduction of a Central Bank Digital Currency (CBDC) in the UK is also likely to change the makeup of our monetary system, with implications for individuals. As the Bank of England Governor Andrew Bailey recently stated, a public conversation on

<sup>2</sup> Education Committee (2023). Education Committee launches inquiry into strengthening financial education. Read [online](#).

<sup>3</sup> Ryan-Collins et al. (2017). Where Does Money Come From? London: New Economics Foundation. Available [online](#).

<sup>4</sup> Bank of England (2014). Quarterly bulletin: Money creation in the modern economy. Read [online](#).

<sup>5</sup> Bank of England (2019). How is money created? Read [online](#).

<sup>6</sup> Jordan, T. (2018). Speech: 'How money is created by the central bank and the banking system.' BIS. Read [online](#).

<sup>7</sup> Positive Money (2014). Parliamentary perceptions of the banking system. Read [online](#).

<sup>8</sup> Positive Money (2017). Poll shows 85% of MPs don't know where money comes from. Read [online](#).

<sup>9</sup> Data from The Bank of England (2022). Quarterly Bulletin: Knocked down during lockdown: the return of cash. Showed that cash payments have been declining as a % of overall payments since at least 1990, however have seen an upsurge post-pandemic as people turn to cash as a store of value. Read [online](#).

the future of money is critical.<sup>10</sup> Education surrounding the fundamentals of our monetary system is a critical enabler of such a debate.

- As Bailey highlighted, recent bouts of financial instability including the collapse of Silicon Valley Bank and Credit Suisse in early 2023, heighten the importance of such a conversation and thus better public understanding of the operation of the banking system.

1.3 Financial education should include an introduction to the role of key institutions in our monetary and economic system, and key economic concepts.

- Whilst difficult to gauge, research has generally found economic and financial literacy in the UK to be limited. Research points to a lack of knowledge of key economic policy tools and measures, and which institutions and/or individuals are responsible for these. Focus group research carried out in 2020 identified, for instance, “*mixed responses about who were responsible for setting interest rates, including banks, the government, the Chancellor of the Exchequer, and the Bank of England*”.<sup>11</sup>
- Concerningly, a recent review of BBC economic coverage also concluded that “*too many journalists lack understanding of basic economics or lack confidence reporting it*”, contributing to a “*lack of clarity that fiscal policy decisions are also political choices*” in BBC coverage of fiscal policy.<sup>12</sup>
- Polling of 1,500 adults from Rethinking Economics conducted in 2015 found that around 60% of those asked could select the correct definition of GDP when given five choices, and 25% did not know. Almost 50% were unable to select the correct definition for the government’s budget deficit from a multiple choice question. Only 30% could correctly define quantitative easing. A further 40% had ‘*never heard of it*’ or said ‘*I have heard of it but I cannot define it*’.<sup>13</sup>
- Importantly, financial and economic literacy has been found to be lower amongst lower-income and more marginalised groups. For instance, a recent survey found that the 13% of individuals that scored most highly also had a significantly higher savings rate than those at the bottom. Polling commissioned by People’s Economy in 2016 found that only 7% of UK adults in lower income households, and 15% in higher income households, felt discussions around economics from politicians and the media were accessible to them.<sup>14</sup> A 2020 study also found economic literacy to be higher amongst groups that were male, older and wealthier.<sup>15</sup>
- The above evidence is of concern from the perspective of personal finances, as well as from the perspective of fostering democratic engagement around issues of financial and

<sup>10</sup> Bailey, A. (2023). Speech: ‘New prospects for money’. Read [online](#).

<sup>11</sup> Runge and Hudson (2020). Public understanding of economics and economic statistics. Read [online](#).

<sup>12</sup> Bastland and Dilnot (2023). Review of the impartiality of BBC coverage of taxation, public spending, government borrowing and debt. Read [online](#).

<sup>13</sup> *Economy* (2021). What’s the economy? Exploring how people feel about economics and why we need to improve it. Read [online](#).

<sup>14</sup> *Economy* (2021). What’s the economy? Exploring how people feel about economics and why we need to improve it. Read [online](#).

<sup>15</sup> Runge and Hudson (2020). Public understanding of economics and economic statistics. Read [online](#).

economic policy. At a broad level, People’s Economy has found there to be a positive correlation between perceived economic understanding and likelihood of voting.<sup>16</sup> Lack of economic knowledge also may act as a limit on engagement with particular political and policy decisions, engagement with which could be of significant benefit for both citizens and policymakers. Research carried out through focus groups in 2020 by the Office for National Statistics (ONS) and the Economic Statistics Centre of Excellence (ESCoE) identified “*distrust in economic statistics among some participants as well as a general disillusionment and apathy about the economy and people’s ability to influence economic outcomes.*” They further identified that “*Often, this distrust stemmed from the view that economic issues were communicated in an inaccessible way, using unnecessary economic jargon*”.<sup>17</sup>

- Economic turmoil since the Covid-19 pandemic has further demonstrated the importance of enhancing public understanding of the concept of inflation, the role of the Bank of England and the Treasury, and key policy tools such as the Bank Rate. The Bank of England’s series of interest rate rises, which Monetary Policy Committee (MPC) members have warned hurt the lowest-paid and most vulnerable in society the most<sup>18</sup>, are currently at the level of ‘peak pain’ for households, according to an MPC member.<sup>19</sup> As these important monetary policy decisions have real-world and severe impacts for household finances, it is essential that the public have a foundational understanding.
- Another important consideration is education around the pension system (and non-bank financial institutions’ more broadly). Since the introduction of automatic enrolment, the majority of individuals with private pensions are now enrolled in Defined Contribution (DC) pension schemes, meaning that individuals, rather than employers, increasingly bear the risk of investment decisions. The UK state pension is particularly low in comparison with other countries, meaning that the UK is an outlier in terms of the responsibility placed on individuals to secure adequate income in retirement.<sup>20</sup> Moreover, private pension savings in the UK are highly unequal. Under current projections, just over half of the current workforce are not expected to achieve a ‘moderate’ living standard in retirement.<sup>21</sup> For those who do have private pensions savings, these are increasingly exposed to risks in the non-bank financial system, as demonstrated by the 2022 Liability-Driven Investment crisis, as well as changes in the broader economic environment. A basic understanding of the pensions system could therefore be considered important for both personal financial management, and to engage in live policy debates over the future of the UK pensions system, which, as the Institute for Fiscal Studies stated, has suffered from a “*dangerous lack of strategic oversight*”.<sup>22</sup>

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<sup>16</sup> People’s Economy (2021). What’s the economy? Exploring how people feel about economics and why we need to improve it. Read [online](#).

<sup>17</sup> Runge and Hudson (2020). Public understanding of economics and economic statistics. Read [online](#).

<sup>18</sup> BBC News (2023). Higher interest rates punish low paid, say’s Bank’s Swati Dhingra. Read [online](#).

<sup>19</sup> The Telegraph (2023). Households dealing with ‘peak pain’ from interest rates, says Bank of England official. Read [online](#).

<sup>20</sup> See for further detail: Common Wealth (2023). Undefined Benefit: Fixing the UK Pensions System. Read [online](#).

<sup>21</sup> Common Wealth (2023). Undefined Benefit: Fixing the UK Pensions System. Read [online](#).

<sup>22</sup> IFS (2023). The Pensions Review. Read [online](#).

- In light of the above, in addition to introducing the role of money creation and the banking system, key elements of a financial education might wish to introduce concepts such as: the role of the Bank of England; interest rates (including 'Bank Rate') and who sets them; inflation; the role of taxes in the economy; the pensions system, including state pensions, and the role of non-bank financial institutions including private pensions and their asset managers.

## 2.0 Examples of best practice in teaching financial education.

### 1.1 Educational charities and other third-sector organisations

- There are a host of organisations, particularly in the third sector, who provide impartial resources and educational content that we consider to be best practice. Importantly, best practice must include introducing a plurality of perspectives.
- Organisations who in our view demonstrate best practice include:
  - [Economy](#)
  - [Rethinking Economics](#)
  - [Exploring Economics](#)

### 1.2 Participatory democracy and community education projects

- Participatory democracy projects may also provide useful examples and resources for teaching financial and economic concepts to non-experts that could be drawn upon in an educational setting. These projects have particular merits due to the plurality of perspectives that can be introduced, and the deliberative nature that may be replicated in a classroom environment.
- Such projects also demonstrate the potential democratic benefit of enhanced financial and economic education, particularly when this education allows for discussion and deliberation. For instance, a recent participatory democracy project entitled 'The Citizens' Economic Council on the Cost of Living' run by researchers at King's College London, found "*when given the right resources and the opportunity to discuss the issues with fellow citizens...nearly all participants indicated that their views had changed to some degree, with most indicating that their views had changed considerably*".<sup>23</sup>
- Similarly, the economics educational charity *Economy* runs a regular series of participatory training programmes to enable participants to better understand the economy, the way it impacts them and their communities, and potential policy solutions to economic challenges.<sup>24</sup>

## 3.0 Comments from individuals and signatures in support of this submission.

We shared the above evidence with our network of individual supporters to sign-on in support of our recommendations and share further comments to include (see below for full list of signatories). As the committee particularly welcomed teachers, pupils, and school administrators' views, we asked supporters to state whether they fell within these groups.

<sup>23</sup> Citizen's Economic Council. (2023). The Citizen's Economic Council on the Cost of Living. Read [online](#).

<sup>24</sup> *Economy* (2023). Birmingham changemakers complete year-long journey to discover how to reimagine, rebalance, and transform the economy. Read [online](#).

A selection of comments from signatories to this submission:

*"I am the Chair of governors of a primary school and strongly believe that explaining how money works in the system should be a key strand of education throughout a pupil's time at school."* - **School governor**

*"Most young people's interest in money focuses on how to acquire it and make more of it. A more in depth understanding of the role of money in the world is highly desirable if we are to create a fairer world and a healthier planet."* - **Teacher**

*We need to equip students to live in the systems that run our society. Eventually they will be charged with improving the systems so that they are fairer and work better for all and so that more people can live reasonable lives and there are fewer who are making themselves ridiculously rich and therefore taking money out of the system."* - **Member of the public**

*"Education in all aspects of citizenship is essential for a democracy."* - **Member of the public**

*"Informing students and indeed people in general about what 'money' is, is long overdue."* - **Teacher**

*"I taught Gcse and mostly A level Economics for 45 years in East London with excellent results. I set up my own Mode 3 CSE course in financial economics in the late 1980s. I am utterly convinced that these concepts are vital for understanding and operating in the modern world."* - **Retired teacher**

*"As a Governor - this is real life learning!"* - **School governor**

*"I am a financial adviser with 30 years experience. This is desperately needed."* - **Member of the public**

*"As well as understanding money in order to have a better grasp of the issues for personal life skills, the wider issues for global political governance, justice, and the international rule of law need to be understood."* - **Member of the public**

Full list of 1,096 public signatures in support, including 274 teachers (36 former teachers or retired teachers), 11 school administrators and governors, and 2 pupils:

*[Signatures removed from this copy of submission]*