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Economic and Financial Education for the 21st Century

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The Partnership for 21st Century Skills places an important emphasis on fundamental social science subjects including history, geography, government and civics, and economics as well as a stress on other important subjects such as English, foreign languages, arts, and science in the school curriculum. It has also identified what it calls 21st century themes, which include global awareness; financial, economic, business and entrepreneurial literacy; and civic literacy. The message is clear: young people cannot effectively participate in the global economy without a deep understanding of basic economics. In fact, the success of the economic system of the United States and its trade partners depends to a large extent on young people understanding its basic characteristics.

The Basics in Economics

What substantive economic understandings might be the most important for young people to have in the 21st century? We believe that young people need an understanding of how market systems decrease poverty and produce wealth. People have been writing about the importance of wealth creation since the days of Adam Smith. But merely because the topic gets a lot if discussion, doesn't mean it is not an important starting point for economic education. Wealthy nations have many advantages over poorer nations. When people have higher incomes, these individuals are less dependent on government and are able to exercise more political and economic freedom. Market economies produce income that allows private sector and public sector institutions to accomplish important social goals including providing high quality health care, improving the environment, reducing poverty, investing in socially important research, improving education, supporting the arts and so forth. It is hard to imagine the world's poorest economies—each of which discourages market activity—generating the income and resources necessary to confront deep social issues. Yet when these nations embrace markets and generate wealth, things begin to change.

So, what are the characteristics of those nations that are able to achieve high levels of wealth? It's not much of a secret. Wealthy nations—even those with vast differences in history, geography, and culture—share certain institutional characteristics. Among these characteristics are:

- Vigorous protection of private ownership;
- Widespread competition among producers;
- Use of the profit motive to engage producers to voluntarily produce the goods and services desired by consumers;
- Respect for consumer sovereignty—consumers are the final authorities regarding what goods and services should be produced and which should not;
- Reduced trade barriers and the expansion of international trade;
- Maintaining a limited economic role of government so that the vast majority of economic choices are made by producers and consumers.

Nations that have created legal and financial institutions that strengthen these characteristics have experienced widespread economic success. Hunt-Ferrarini and Schug have explained how the Constitution of the United States provides important protections of private ownership and free trade and how these, in turn, helped to produce wealth.[1]

The opposite is also true. Nations that ignore these characteristics have impoverished their people. Let's take North and South Korea as an example. Here are two peoples who had a common, independent country from the seventh century until the 20th century. They share a common history, culture, homogeneous ethnic composition, similar geography, and the same language. Yet today the economy of South Korea is nearly 14 times larger on a per capita basis than the economy of North Korea. As of 2007, the economy of South Korea had a GDP of more than $1 trillion and a per capita income of $24,500. It now ranks among the wealthiest nations in Asia. In contrast, North Korea has a GDP of $40 billion and a per capita income of $1,800. It ranks among the poorest nations of the world. Producing a high per capita GDP is usually associated with other important social outcomes. For example, the infant mortality rate is nearly four times higher in North Korea than in South Korea. South Koreans live longer than North Koreans.

Why do these dramatic differences exist? North Korea decided after World War II to eschew the principles of market economies and instead embraced a command system. Today, it is perhaps the world's most centrally planned economy. The government dominates nearly every economic decision. Price controls cause chronic shortages of all sorts of goods and services. It has isolated itself from international trade. Its collective farms have failed. North Koreans now suffer from prolonged periods of malnutrition and poor living conditions.

South Korea took a different path. It embraced the basic institutions that make up a market economy. While the government plays a larger role than in many western market economies, most decisions are made privately by producers and consumers. South Korea is heavily involved in international trade. Living standards now resemble those of many Europeans—a big change since the 1960s. And South Korea is not alone. Hong Kong embraced market principles sooner and has established a very high standard of living. Similar policies were followed by the nations that emerged from communism, such as Poland and Estonia. Nations such as New Zealand and Ireland have reduced many non-market forces in their economies by lowering trade barriers and reducing taxes and have generated an amazing increase in wealth. Today, of course, the fastest growing economies are India and China. China and India are lifting millions of people out of poverty by adopting policies consistent with many of the basic principles of market systems.

What Works in Economic Education?

While looking toward economic and financial education for the 21st century, it is interesting to note that economics is marked by a general agreement on the main topics to be studied. This consensus is apparent when observing the similarities in the content and format of current leading college and high school textbooks, most of which are written by university economics professors. In a recent paper investigating the high school economics textbook market, Leet and Lopus find that all of the 11 textbooks in the study cover most of the *Voluntary National Standards in Economics* published by the National Council on Economic Education.[2] Created by a group of economic educators from diverse organizations, the twenty standards represent the important ideas that students should learn from economic education in grades 1-12. The textbooks written for general high school audiences also exhibit a large degree of uniformity in the content order of the chapters and the reference materials included.

Despite the broad agreement about topics to be covered in high school economics classes, economists exhibit much more agreement with respect to microeconomics than macroeconomics. Microeconomics is based on widely agreed upon assumptions and outcomes involving incentives and marginal analysis in individual markets. Macroeconomics, on the other hand, delves into areas where evidence is less conclusive such as the efficacy of active versus passive stabilization policies. We simply do not know as much about macroeconomics as we would like—leading to widespread debates and leading different economists to reach different conclusions.

Fortunately for economic educators, there is a wide body of both quantitative and qualitative studies investigating the teaching and learning of economics at the college and the precollege level. The precollege literature is summarized in a paper by Michael Watts of Purdue University.[3] Economic education studies point to the importance of teacher education: teachers who know more economics have students who learn more economics. Time spent teaching and quality of materials are also important. Students learn more economics in formal economics courses than when the content is infused in other courses. However, taking one high school course in economics does not ensure long-term knowledge retention or necessarily qualify the student as economically literate.

After many years of advocating for improved economic understanding, we can now point to some important successes. Late in 2006, the first National Assessment of Educational Progress (NAEP) was reported by the U.S. Department of Education. This assessment was added in response to the growing emphasis on economics at the high school level. In 2006, about two-thirds of students reported that they had taken either an advanced or a general economics course. Examining the results by achievement level, 79 percent of twelfth-graders performed at or above Basic, 42 percent at or above Proficient, and 3 percent at Advanced.

While one must be cautious in comparing the NAEP results in economics to the performance of students on other tests, this level of achievement was much higher than the levels attained in history, geography, or civics. What accounts for this relatively positive outcome? We don't know for certain. We suspect, however, that it may be the result of widespread agreement regarding what economics concepts are most important to teach. We also suspect that economics teachers might be more specialized within social studies departments at the high school. For example, while nearly everyone is expected to share the duty of teaching U.S. history, we suspect that only one or two teachers take special responsibility to teach economics.

Getting Ready for the 21st Century

The world is becoming increasingly interdependent as people, businesses, and governments are more integrated with those of other countries. This globalization, a result of opening up trade and markets, provides enormous opportunities for

What Should Economics Teachers Do to Prepare?

RESOURCES

Fortunately there are many resources available to help teachers prepare to teach economics. Here are some of our favorites:

The National Council on Economic Education (**www.ncee.net**) publishes quality, classroom-tested supplementary materials for use in K-12 classes with a focus on lesson plans. *Virtual Economics 3.0* contains more than 1200 activity-based economics and personal finance lessons from 80 separate NCEE publications on one CD-ROM. Teachers can search for lessons by concept, grade level, or by state and national standards. *Virtual Economics* also contains an extensive economics glossary. For those who prefer print versions of lessons, we recommend NCEE's "Great High School Economics Package," which contains three publications of lessons for teaching high school economics

For personal advice and workshops on teaching economics, we recommend that you contact your local Center or Council for Economic Education. A list of Councils and Centers affiliated with NCEE may be found at **www.ncee.net/network/**. See also workshops and materials available from the Foundation for Teaching Economics (**www.fte.org**) and from the Liberty Fund. The Liberty fund has an online Library of Economics and Liberty (**www.econlib.org**.)

There are many great websites with information for high school economics. Each Federal Reserve Bank is a source of information for teachers and students. For example, see the website of the St. Louis Fed for six stand-alone lessons on the Great Depression (**www.stlouisfed.org/greatdepression/**) and Liber8 (**liber8.stlouisfed.org/**), a portal of reference information for students, teachers, and librarians. For other sites with multiple links, we like the website of the Center for Economic Education at the University of Nebraska, Omaha (**ecedweb.unomaha.edu/k-12/home.cfm**) and **<url>www.EconSources.com**.

For information about the economies of different countries, we like the well-known CIA World Factbook (**www.cia.gov/library/publications/the-world-factbook/**). See also www.gapminder.org to see and compare the economic situation of different countries.

The Statistical Abstract of the United States (**www.census.gov/prod/www/statistical-abstract-1995_2000.html**) is pretty user friendly for data, as are the websites of the Bureau of Labor Statistics (**www.bls.gov/**) and that of the National Bureau of Economic Research (**www.nber.org**), which is especially good for business cycle information.

Do you have resource ideas to share with other economics teachers? Favorites that are not on our list? Join the Global Association of Economics Teachers (**www.ncee.net/GATE/**) for access to a discussion board that reaches economics teachers nationally and internationally. You will also receive discounts on NCEE materials and newsletters with valuable information.

the majority of people in both rich and poor trading nations. Therefore it is problematic that polls indicate that most U.S. voters believe that trade with other countries is hurting the American economy.[4] Economic educators must change these opinions by teaching 21st century students about the overall benefits of opening up trade. In addition to overall benefits to Americans, increasing trade between rich and poor nations is necessary to bring the people of poor nations out of poverty.

The law of comparative advantage, the basis for free trade, concludes that free trade is mutually beneficial so long as countries specialize in producing the goods and services where they are comparatively more efficient. But from a political perspective this can be problematic because some people do not benefit in the short run. Increased international competition creates a threat to U.S. companies and workers who lose sales and jobs to foreign businesses and workers. Although U.S. consumers benefit from lower prices and other U.S. businesses and workers benefit from increased productivity and opportunities, it is often the displaced workers who command the political attention. However, increasing trade barriers in the name of protecting inefficient industries is not the solution to this dislocation. Displaced workers, often in manufacturing, can be retrained to work in areas with increased demand, often in services. Innovation and entrepreneurial opportunities can expand jobs for workers: Who would have imagined the number of jobs that would be created in technology 20 years ago? Educating the workers of the 21st century with improved mathematical and scientific skills, along with improved knowledge in economics and other areas, will allow our workforce to adapt to the challenges of change and competition. Education, not protectionism, is the solution.

History provides important lessons on globalization and free trade. Between the two world wars, flows of people, capital and trade were greatly restricted compared to the late nineteenth and beginning of the twentieth centuries. These beggar-thy-neighbor policies were causes of both political and economic instability. Increased globalization has existed since the 1950s and has led to increased wealth throughout most of the world. We do not want to repeat the mistakes of the last century in the 21st century by increasing trade barriers.

The Partnership for 21st Century Skills has correctly acknowledged that issues surrounding financial education have changed over the past several years. Individuals have increased responsibility for managing their finances than they did 25 years ago. Writing in *Social Education* in 2005, John Morton argued that while advocacy on behalf of increased financial education has increased, there has been little actual change in the curriculum and levels of financial literacy remain low. He suggests that one reason for this result is that financial education is "homeless"—it has no natural place in the school curriculum—and that economics is the logical home for personal finance education because it is a discipline that is widely accepted as a core subject within the K-12 curriculum.[5]

Notes

1. Tawni Hunt-Ferrarini and Mark C. Schug, "History Matters: An Institutional Approach Examination of the U.S Constitution," *Social Education* 71, no. 2 (2007): 57-60.
2. Don R. Leet and Jane S. Lopus, "Ten Observations on High School Economics Textbooks," *Citizenship, Social and Economics Education: An International Journal* 7, no.3 (2007): 201-214; National Council on Economic Education, *Voluntary National Content Standards in Economics* (New York, NY: National Council on Economic Education, 1998).
3. Michael Watts, *What Works: A Review of Outcomes and Effective Program Delivery in Precollege Economic Education*, Monograph (New York, NY: National Council on Economic Education, 2005).
4. "Trade and Prosperity," Editorial: *The New York Times* (December 23, 2007).
5. John S. Morton, "The Interdependence of Economic and Personal Finance Education," *Social Education* 69, no. 2 (2005): 66-69.

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