

**Shifting the Paradigm of Financial Education:  
From a Wealth Maximization Model to Include a Financial Well-being Model**

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**Statement of the Problem**

For the past nine years, we have been curriculum designers, project leaders and contributors to the Family Economics and Financial Education (FEFE) project, now housed at the University of Arizona, funded by a continuing series of grants from the Take Charge America, Inc., non-profit, credit counseling and financial education company. We have an extensive Web site at [www.fefe.arizona.edu](http://www.fefe.arizona.edu) with curricula written by teachers for teachers. Experts have reviewed the materials for accuracy and for teaching appropriateness. The lessons in the curricula are:

- available free of charge to teachers,
- based on active learning (even fun!),
- and teach through engaging multiple intelligences.

Lessons are written to stand alone or to be used in a series to create units to be taught in time allotments from a week to a year. To date over 8,000 teachers have been trained to teach the curricula in state and/or national training conferences and approximately 500,000 students have been taught lessons with over 60% of students taking a one semester course in family financial education using the FEFE curricula.

For the past two years, we have engaged in rethinking the financial education model we have been using. We have been aided in the evaluation by reviewing the results of a national symposium, held in Washington, D.C. in October 2008, convened by the U.S. Department of the Treasury and the U.S. Department of Agriculture. The purpose of the symposium was to examine the national research priorities in financial literacy and education. The first research priority listed was:

**“What are the core principles of personal finance that every consumer needs to know, and what evidence exists that current standards are effective in helping people reach their financial goals?” (p.2).**

The first step to answering this question is to determine what the final outcome of financial education should be. If financial education is successful for a student, what will that student know, feel, and do? How will we as educators and researchers recognize success?

Up to the present, the model that has been used in most financial education materials is either explicitly or implicitly one of wealth maximization. Wealth maximization, as used here, means focusing on planned spending, saving, investing, wise credit use, using insurance to protect financial resources, minimizing taxation on income and wealth, and passing wealth along to others after death with minimal taxation. All these topics and others commonly taught lead to wealth maximization in one form or another.

Evidence that this model of wealth maximization is alive and well in financial education can be seen by examining textbooks (for example, Garman and Fogue, 2008, Keown, 2010, or Gitman & Joehnk, 2008). Wealth maximization seems to be a worthy goal, especially when looking at some of the world's current financial issues such as consumer debt, home foreclosures, and job loss. The FEFE project has also used a wealth maximization model.

### Why Should Wealth Maximization Not Be the Only Goal for Financial Education?

#### Wealth Maximization: Does Only Money Matter?

Utility maximization is closely aligned in the literature with concepts such as subjective well-being and happiness. Happiness has been studied in populations across the world with an instrument asking subjects to rate their own happiness (subjective well-being) levels. According to Easterlin and Sawangfa (2007), mean happiness scores can be predicted with the mean satisfaction levels subjects report in each of four domains: Finances, family life, work, and health. Clearly, a whole well-being model is at work in creating overall happiness or well-being. By focusing on the “money only” model, individuals may be led to believe that only more money will bring an increase in happiness whereas happiness studies show that individuals have to balance competing demands, for example labor and leisure, in order to reach a higher plane of happiness. The trade-offs, especially, between work and family life indicate that working more can reduce overall happiness if family life suffers. Family life requires the inputs of unpaid labor in the form of household production for family member care, food preparation, shopping, and other activities that are important elements of family living but are not accounted for in the GDP and for which there is no dollar payment. Under-investing in family living and investments in health (such as time in exercising, health eating, and preventive medical care) can produce less overall happiness, even though the trade-off might be made to increase work hours and therefore, income.

#### Wealth Maximization: Do Only Rich People Have Financial Satisfaction or Well-being?

Another unfortunate consequence of a focus on wealth maximization is that many populations who have been disenfranchised from the opportunities to create wealth can be made to feel that financial education is not for them. They may think that only rich people can make use of financial education opportunities. Contrary to that notion, financial well-being or satisfaction can be available to individuals and families across the income spectrum; it is not only for rich people. The “simple living” movement that has quietly sprung up around the world can exemplify a lifestyle where individuals are choosing to live with less money so they have time for leisure, family, friends, and devotion to community volunteerism. Financial education should have something to offer students at all income levels to allow students to feel hopeful about their financial futures. Financial education can be a form of social justice by allowing students to learn to not only manage the finances they have, but learn to create stable and secure financial futures at many income levels. This is not to promote poverty or minimize the hardships suffered at low incomes, as the research shows a need for individuals to have adequate financial resources before overall life satisfaction can approach the mean.

#### Wealth Maximization: Can the World’s Resources Sustain Wealth Maximization for All Individuals?

While wealth maximization does not necessarily indicate a higher level of consumption, wealth often means that consumption rates increase. Increased consumption can pose issues if multiplied across large populations. For example, countries previously unable to support the acquisition of consumer goods such as cars are now focusing on allowing their citizenry the opportunity to buy cars with the associated purchases gasoline, tires, and the necessary and expensive accoutrement: Roads. Can the physical world support over six billion individuals driving cars? Sustainability of a worldwide wealth maximization model involves an assessment of the global resources available. As we seek to have a peaceful world that allows utility maximization opportunities to all persons, establishing sustainable lifestyles is an issue.

#### Why Include Financial Well-being?

If we are to think of the wealth creation model in classic economic terms:  $U = u(\text{prices, income})$ .

That is, utility (overall happiness, life satisfaction, well-being) is a function of income given prices in the marketplace. The more income, holding prices constant, the more utility will be created. This model also states that happiness or utility will increase with more money in a monotonically linear relationship.

However, recent research literature strongly provides evidence that wealth does not have a monotonic relationship to utility (happiness, satisfaction, well-being) (for example, Easterlin & Sawangfa, 2007; Diener &

Seligman, 2004; Peiro, 2005; Easterlin, 2001; and many others). The literature suggests that wealth or income does contribute to utility and that wealthier people are happier, but that it is not the sole contributor to utility. Further, there is a decreasing marginal contribution of wealth to utility as one passes the point of having wealth in an amount similar to one's peers or reference group. (Note, however, that no research has determined that there is eventually declining utility to increased wealth.)

A subjective well-being model may be more accurately portrayed as:  $U = u(\text{work, family, finances, health, prices})$ .

### Creating a More Comprehensive View of Financial Well-being

As consumer and family economists and financial educators, we want to contribute to increasing utility for individuals. If a pure wealth maximization model does not result in monotonically increasing utility, then we need to examine the veracity of a wealth maximization model in financial education. If wealth maximization is not the entire goal of financial education, but only a partial goal, then: *What is a clearer, more complete articulation of the goal/s of financial education?*

While wealth maximization may not be the only goal, certainly fostering student knowledge, attitudes and behaviors to create wealth at some level is important to overall well-being. Individuals and families must have money to purchase goods and services in the pursuit of happiness. Perhaps what should be added to the curricula is an understanding about the creation and preservation of subjective financial well-being. Topics may include:

- Gratitude
- Insights from behavioral economics (such as automation of savings and investments)
- Methods for reducing financial stress
- Knowledge of government and non-profit resources and programs

While research has examined subjective financial well-being (see, for example, O'Neill, Sorhaindo, Xiao, & Garman, 2005; Baek, E. & DeVaney, S. A., 2004; Fox, Benson, DeMaris, & Van Wyk, 2002; Dickson, 1996; and Titus, Fanslow & Hira, 1989), it is not clear what the research question asking subjects about subjective financial well-being actually measures. Further, it is not clear how financial well-being is created in an individual and what role education can have to foster financial well-being in an individual. Finally, subjective financial well-being should be a contributor to overall subjective well-being, that is, utility maximization, although its role in creating overall subjective well-being is not understood fully.

Research can and should inform the overall goal of financial education so that subjective well-being (utility) can be maximized rather than focusing solely on wealth maximization. We propose that financial educators and researchers widen the goal of financial education to include enhancing subjective financial well-being for all students. To support this goal, research must be undertaken to begin to understand:

1. What subjective financial well-being actually measures;
2. How subjective financial well-being is created (is it only through wealth creation or can it include the development of other skills and attitudes such as gratitude?);
3. How subjective financial well-being can be fostered in a sustainable manner in the whole of the world's population;
4. What pedagogy techniques can be used to help students move toward high subjective financial well-being at various developmental stages in the life cycle;
5. How subjective financial well-being feeds into overall subjective well-being (happiness, utility) because, in the end, producing high overall subjective well-being (happiness, utility) is the larger goal of societies, governments, and economic systems.

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Endnotes

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