

Generation Z and Financial Literacy in Japan: A Preliminary Discourse on Attitudes, Behavior, and Outlook

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An examination of the differences in financial literacy between university students in the United States and Japan can provide a basis for how to improve financial literacy rates in one or both countries. By looking at the financial knowledge, behavior, interest levels, and outlook for freshman and sophomore level students, a snapshot of distinct deficiencies in financial education and identify cultural differences that can reveal the inherent lack or possession of financial skills. Moreover, financial literacy rates have been connected to a healthier, happier lifestyle as well as a more stable career and successful retirement. Through a survey comparing students in each nation, the differences of a specific subset, known as “Generation Z”, has opened up interesting avenues for further research.

Keywords: financial literacy, Generation Z, Japan, United States, education

The rising number of young investors in The United States seeking out new ways to create wealth for themselves is a potential indicator of increased financial literacy or interest in financial skills. An April 2021 survey of American investors conducted by *The Motley Fool* found that 47% of Gen Z investors own cryptocurrency in comparison to 39% of Millennials. Moreover, 39% of the surveyed Gen Z investors had stock options in comparison to only 30% of Millennial investors (Caporal, 2021, p.4). On the other end of the spectrum, a different story has unfolded in Japan. There seems to be apathy and general disinterest towards building wealth amongst the younger generation. As of 2018, 52% of household assets in Japan were being kept in the form of currency

and bank deposits, which is considerably higher than the 14% of financial assets in that form being held in the United States. Fifteen percent of Japanese household financial assets were invested, less than half of the 31% invested by Americans (Altman, 2019).

The consumption and investment decisions of Generation Z will certainly shape the world around us, as this particular generation’s earnings are projected to hit \$33 trillion in US dollars by 2030, far surpassing the purchasing power of the Millennials generation (Winck, 2020). Having an understanding of Generation Z’s goals and their base level of financial literacy will continue to be critical to many industries and public institutions. This paper will explore the idea of financial literacy on both a national and individual level and indicate the viewpoint with a sample size of Gen Z university students in both the United States and Japan through a qualitative survey. Before presenting the data and an analysis of the survey results, two concepts should first be

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briefly defined, both the terms *financial literacy and generation Z*.

Financial Literacy and its Importance

Financial literacy is defined by Investopedia as “the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing” (Fernando, 2021, pg. 14). Kelkar (2021) explains that the largest indicators of a population’s financial literacy are typically found in both cultural markers and economic markers. Cultural markers are behavioral indicators of larger cultural trends, while economic markers are indicators of economic trends within a peer group or national economy. Cultural markers include attitudes towards money or wealth, the level of trust towards financial institutions, and the decision-making process behind personal financial strategies and habits. However, economic markers include a net worth of assets, investment choices, and salary.

According to a study from Altman (2019), the lack of active investing is a cultural marker that is particularly correlated to levels of lower financial literacy. In the case of Japan, it was found that generationally wealthy Japanese families, 52% of their wealth was held in the form of cash, indicating extremely low investing activity with minimal risk tolerance thresholds. This has led academic economists, such as Sekita (2020) to study how cultural norms, like the generational practice of reliance on cash, can impact financial literacy, and create a ripple effect throughout an individual’s life.

Yoshino & Nobuyoshi (2015) point to financial education at the junior and high school level to suggest that the youth of Japan are not being given proper instruction about finances that will shape their adult lives. In a questionnaire distributed amongst 32,220 schools, encompassing almost all junior high and high schools in each region of Japan, it was found that junior high schools and high schools in charge of financial education did not have sufficient educational backgrounds to teach the subject. Only 20% of all teachers instructing finance had graduated from

an economics, business, or commerce university department. While the researchers expressed that this lack of background knowledge was part of a larger systemic issue, many teachers reported that Japanese civics and social studies textbooks gave little to no coverage of important finance lessons that students may need after graduation (Yoshino & Nobuyoshi, 2015, pp.3-5).

Brief Overview of Generation Z in Japan

Gen Z is the newest generation consisting of people born between 1997 and 2012. This generation has been referred to as the “Satori Generation”, a term for enlightenment used in Buddhism. The young people born in Japan between these years, have been categorized by researchers as trending towards some sort of awakening - distancing themselves from conventional values like consumerism and seeking financial success in life for a pursuit of happiness based in simplicity. However, there are just as many members who have given up on hope for any kind of achievement in their future (Francis, 2019, pp.2-3).

Kelts (2015) likens it to a “generational resignation”, and an abandonment of ambition or hope (p. 1). Sakashita (2020) provides a contextual theory for these unique characteristics of pessimism. It is his opinion that the psychological traits and apathy towards the future are a result of four factors ingrained into the memory of generation z: the sadness and shock of the Great Hanshin Earthquake of 1996, the Sarin gas terror attack that took place the same year, the financial global crisis and housing bubble collapse of 2008, and the Great East Japan Earthquake and tsunami of 2011 (p. 56). According to a survey conducted by the Japan Youth Study Group (JYSG), 72.6% of Japanese people born between 1992-1997 disagreed with the statement that “Japan’s future is bright” (Sakashita, 2020, p. 57).

Method

The Organization for Economic Co-operation and Development / International Network for Financial Education (OECD/INFE) 2020 International Survey of Adult Financial Literacy

includes data from the populations of 26 countries, but excludes Japan and The United States. However, their assessment of a variety of countries provided a solid backdrop for this study. The OECD/INFE study separates financial literacy into three categories: knowledge, behavior, and attitude (OECD, 2020). The OECD and INFE focus on the overall financial literacy of national populations and the implementation of financial skills. This international survey examined a sample of each of the major determinants and markers of financial literacy: knowledge, behavior, interest, and outlook. The attitude category of the OECD/INFE Survey was divided between interest and outlook; interest focuses on both Gen Z's views toward cutting-edge financial technology (fintech) products and financial skills. To get a snapshot of the thought process among real students, a survey was conducted at both an American university in the northeastern United States and a Japanese university in the Chugoku region. The student majors were not related to finance or business, and the universities were of comparable size.

Participants

There were 35 participants who attend university in the United States, and there were 67 participants who attend university in Japan. Ninety-five percent of participants were between the ages of 18 and 21, with the remainder being 22 or older. There was a fine gender ratio among participants, with 59 females, 42 males, and 1 non-binary participant.

Assessments and Measures

The survey contains questions to check participants' knowledge, interest, behavior, and attitude as it pertains to financial preparation and outlook for their financial future. There are two questions about knowledge, two questions about interest, three questions about behavior, and 3 questions about attitude and future outlook.

The assessment survey was modeled after the National Financial Literacy Test from the American group National Financial Educators

Council. The assessment length and depth were streamlined to account for the attention span and busy schedule of the participants. The National Financial Literacy Test's current pass rate for ages 19 to 24 is 71.14% (NFEC, 2021).

Outcome 1 (Knowledge)

The first question pertaining to knowledge, "Which asset type is considered the safest investment?", had a correct response rate of 37% from the American participants, and a 6% correct response are for Japanese participants. Eighty-seven percent of the Japanese students responded that cash is the safest investment, re-emphasizing a point made earlier concerning wealth often being held in the form of cash in Japan (Altman, 2019).

Table 1: (knowledge)

"Which asset type is considered the safest investment?"		
Answers	American Responses	Japanese Responses
Bonds (<i>correct answer</i>)	37%	6%
Stocks	32%	7%
Cryptocurrency	17%	0%
Cash	14%	87%

The second question in the knowledge category was, "What is the maximum percentage of your salary that rent/mortgage should cost?" This had a correct response rate of 40% from American participants and 26% and Japanese participants. Typically, rent or mortgage costs should not cost half or more of one's total salary, to allow for reasonable savings and to account for other common costs of living(OECD, 2020).

Table 2 : (knowledge)

"What is the maximum percentage of your salary that rent/mortgage should cost?"		
Answers	American Responses	Japanese Responses
30 % of salary (<i>correct answer</i>)	40%	27%
5% of salary	17%	25%
15% of salary	37%	34%
50% of salary	6%	13%

Outcome 2 (Behavior)

The American participants were much less likely to have a financial plan for their future, which contradicts their higher positive

response rates in the following interest and outlook categories. Most students in both groups responded that they have at least both a loose personal budget and loose future financial plan.

Table 3: (Behavior)

Agree or disagree: "I have a personal budget."		
Answers	American Responses	Japanese Responses
Yes, and I follow it closely. (<i>best answer</i>)	17%	27%
Yes, but it is a loose plan.	57%	45%
No, I don't have a budget.	20%	18%
I don't understand. / Refuse to answer.	6%	10%

Table 4: (Behavior)

Agree or disagree: "I have a financial plan for the future, with clear saving goals."		
Answers	American Responses	Japanese Responses
Yes, I have a solid financial plan with investing/saving goals. (<i>best answer</i>)	17%	19%
Yes, but it is a loose plan.	34%	63%
No, I don't have a financial plan for the future.	46%	13%
I don't understand. / Refuse to answer.	3%	4%

Only 9% of Japanese participants reported investing currently or in the past, compared to 37% of the American participants. The ease of investing through online banking and new consumer investing apps means that both groups should have a similar level of access and opportunity. However, specifically in America, advances in financial technology or "fintech" are lowering the barrier of entry to wealth management and investing. Many platforms now

have no brokerage fees for buying or selling shares of individual stocks. Other new fintech offerings like cryptocurrencies and fractional shares are also making it extremely easy for young consumer investors to begin investing. Sites like Reddit, a group of smaller communities for niche interests, have become homes for groups of like-minded people who are seeking advice or information (Stewart, 2021, p. 2-5).

Table 5: (Behavior)

Agree or disagree: "I have invested money into an asset with growth potential before."		
Answers	American Responses	Japanese Responses
Yes, I currently have investments. (<i>best answer</i>)	28%	4%
Yes, I have invested in the past.	9%	4%
No, I have never invested money before.	57%	85%
I don't understand. / Refuse to answer.	6%	6%

Outcome 3 (Interest)

The interest level towards financial topics of the American participants was 3.35 times greater than the interest of the Japanese participants.

Both groups discuss financial topics with their family, friends, or partners, but the interest in cutting-edge topics like cryptocurrencies set them apart. Twenty-eight percent of American

participants reported purchasing one of these new fintech offerings before, while only 4% of the Japanese students said they had invested or purchased a cryptocurrency. Although, 9% of

the American group and 28% of the Japanese group were not aware of the existence of cryptocurrencies.

Table 6: (Interest)

Who do you discuss finances with? (investments, financial planning, salary/career planning)		
Answers	American Responses	Japanese Responses
I discuss financial topics with family, friends, coworkers, or my partner. (<i>best answer</i>)	83%	79%
I discuss financial topics with people online.	3%	4%
I don't discuss financial topics with anyone, but I read about finance.	9%	0%
I don't discuss financial topics with anyone or have exposure to financial topics.	6%	16%

Table 7: (Interest)

Agree or disagree: "I am interested in currently hot financial topics like cryptocurrencies, non-fungible tokens (nfts), etc."		
Answers	American Responses	Japanese Responses
Yes, I have purchased a cryptocurrency or NFT. (<i>best answer</i>)	28%	4%
Yes, but I am skeptical of their value in a financial plan.	37%	22%
No, I'm not interested in the emerging technology in the financial space.	26%	45%
I don't know what those are.	9%	28%

Outcome 4 (Outlook)

The responses to the three outlook questions were given a score from negative to positive (-2, -1, +1, +2). The averages were taken for each

group condensing each American student group and Japanese student group, into two separate outlook scores.

Table 8: (Outlook)

Agree or disagree: "I am confident I will be able to retire at a reasonable age."		
Answers	American Responses	Japanese Responses
Yes, I will be able to retire at my goal age / a reasonable age. (<i>best answer</i>)	49%	27%
Probably, but I have some doubts that I can retire completely at a reasonable age.	40%	39%
No, I may have to work past the average retirement age.	8%	25%
No, I may never truly retire in my lifetime.	3%	9%

Table 9: (Outlook)

Agree or disagree: "I have been prepared with the financial skills to have a stable life from what I learned in school."		
Answers	American Responses	Japanese Responses
Yes, what I learned in school has prepared me to be financially responsible. (<i>best answer</i>)	9%	18%
Yes, what I learned from my family has prepared me to be financially responsible and make good decisions.	37%	28%
No, but I learned on my own to prepare myself to be financially responsible.	37%	12%
No, I have no financial skills or no confidence in my ability to manage finances.	17%	42%

Table 10: (Outlook)

Agree or disagree: "I think the global economy is on the right track."		
Answers	American Responses	Japanese Responses
Yes, I am positive about the financial future of the world. (<i>best answer</i>)	23%	10%
Yes, the economy should be stable/growing, but I might be left out.	23%	57%
No, things seem to be getting worse and will get worse in the future.	54%	33%

The outlook score ranged from +6 to -6. The results, show a pessimistic viewpoint for Japanese students, and an optimistic viewpoint for the American students. Japanese participants had a -0.836 overall outlook score, while American participants had a 0.486 overall outlook score.

Limitations and Conclusion

The limitations of this assessment are numerous. The sample size involved in this survey was a narrow, cross-departmental examination with a small sample size. Additionally, the level of the institutions involved in the survey may not be academically aligned, so the academic backgrounds and current learning opportunities for each student groups may also be varied. This preliminary research only captured a glimpse of the sentiment of Generation Z, and broader, more thorough research needs to be conducted to capture a multi-dimensional perspective.

Generation Z is the newest generation to enter the workforce, and while students from both

countries possess areas for improvement, many of them are taking advantage of technology to access investment opportunities. The overall result from this small sample show that American university students are more prepared than their Japanese counterparts for a stable financial future.

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