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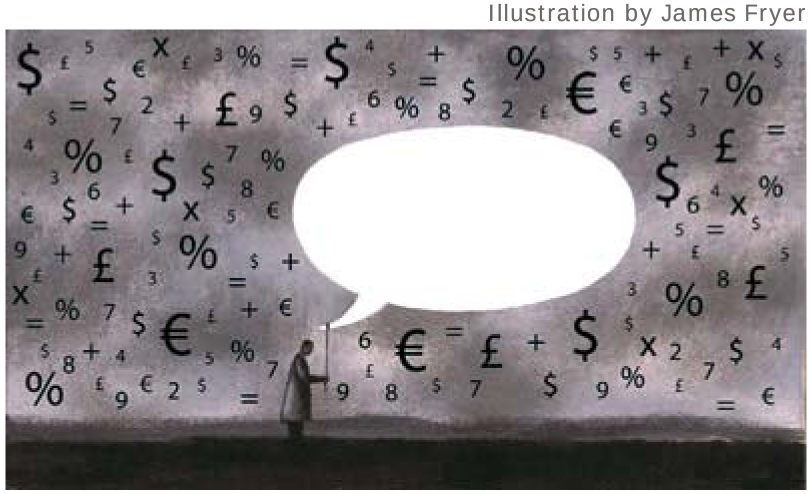
A global crusade is under way to teach personal finance to the ı

Illustration by James Fryer

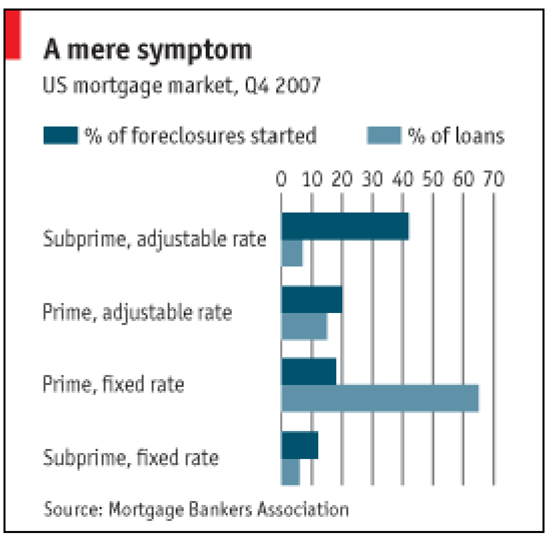


“EVERYBODY wants it. Nobody understands it. Money is the great taboo. P
won't talk about it. And that is what leads you to subprime. Take the greed
financial misrepresentation out of it, and the root of this crisis is massive l
financial illiteracy.”

For years John Bryant has been telling anyone who will listen about the pr
caused by widespread ignorance of finance. In 1992, in the aftermath of th
Angeles riots, he founded Operation HOPE, a non-profit organisation, to gi
people in the worst-hit parts of the city “a hand-up, not a handout” throug
mixture of financial education, advice and basic banking. Among other thir
Operation HOPE offers mortgage advice to homebuyers and runs “Banking
Future”, a national personal-finance course of five hour-long sessions that
already been taken by hundreds of thousands of young people, most of th
school students.

That many poor people do not have a bank account—and that few of them understand why this puts them at a disadvantage (let alone other essentials of personal finance)—is at the heart of "the civil-rights issue of the 21st century", says Mr Bryant. He calls the attempt to help people help themselves out of poverty through financial literacy and economic opportunity the "silver-rights movement".

In January George Bush appointed Mr Bryant vice-chairman of his new President's Council on Financial Literacy. This was launched as part of his administration's increasingly frer response to the financial crisis that followed the meltdown in subprime mo many of them given to borrowers who may not have understood the risks. borrowers did not even realise that their monthly payment would rise if int went up, says Mr Bryant. Subprime borrowers on adjustable interest rates mortgages make up just 7% of the total, accounted for more than 40% of foreclosures begun in the fourth quarter of last year (see chart).



The council is not short of expe chaired by Charles Schwab, ep boss of a broking firm. Its othe include the head of Junior Achi which has been teaching childr money since 1919, and a co-au "Rich Dad, Poor Dad", a self-he bestseller. Already, it has appr curriculum for middle-school st "MoneyMath: Lessons for Life". one: the secret to becoming a Answer: save, save, save.) It i pilot programme to work out h connect the "unbanked" to fina institutions. And it is supportin echoing the Peace Corps, is cal Financial Literacy Corps: a grou people with knowledge of finan volunteer to advise those in financial difficulties.

April has been declared Financial Literacy Month by Congress. The need to more than a slogan is especially apparent this year. But America is not the country where doing something about the widespread ignorance of person is on the agenda. Governments from Britain to Russia are declaring their commitment to financial education. This month the World Savings Banks I which represents retail and savings banks from 92 countries, will hold a su Brussels about financial education in the light of the subprime crisis.

Meanwhile, on March 17th a new campaign to promote financial literacy in developing world was launched at a conference in Amsterdam. Called Aflat ("Explorer"), after a cartoon character based on a Bollywood star, it is the of Jeroo Billimoria, a social entrepreneur who previously worked with stree in India. Among other things, she founded a successful emergency 24-hou service, called Childline. She found that many of the children she helped w entrepreneurial (indeed, such spirits may have played a part in their decisi home) and became convinced that, given better education, they would ha well in life.

Ms Billimoria addresses herself to children aged between six and 14, whom educators consider too young to understand money. Having begun with ex in rural India, her non-profit organisation, Child Savings International, has Aflatoun course in 11 countries, including Argentina, South Africa, Vietnam Zimbabwe, since 2005. It is now extending the course to 35 developing co Only recently, after suggestions from the Dutch central bank and the Euro Commission, has Ms Billimoria started to adapt Aflatoun for rich countries Britain, the Netherlands, Ireland and perhaps America. "My mistake. I nev it would be needed in developed countries," she says. If only.

Fools and their money

It is a "well-established fact" that "a substantial proportion of the general the English-speaking world is ignorant of finance," writes Niall Ferguson, a at Harvard University, in his forthcoming book about the history of finance Ascent of Money". He produces a long list of evidence to support this concl According to one survey last year, four in ten American credit-card holders pay the full amount due every month on the credit card they use most ofte the punitive interest rates charged by credit-card companies. Nearly one-t they had no idea what the interest rate on their credit card was.

There is similar evidence elsewhere. For instance, a survey in 2004 by Car University and Prudential, a big insurer, found that some 9m Britons are "f phobic", meaning that "they shy away from anything to do with financial ir from bank statements to savings accounts to life assurance." Research by regulator, the Financial Services Authority, found that one-quarter of adult realise that their pensions were invested in the stockmarket.

Financial illiteracy is not limited to subprime mortgage borrowers, then; it pervasive in all age groups, income brackets and countries. "Subprime is a symptom," says Mr Ferguson, noting that many of the students he has tau "best universities in the world, including MBA programmes, don't even kno difference between the nominal and real interest rate." This problem is mo than ever, he adds, because governments and businesses have pushed mo responsibility for financial well-being onto individuals, whether by encoura homeownership or by promoting personally-managed retirement accounts than defined-benefit pensions.

The education system deserves much of the blame, says Mr Ferguson, wh having learnt nothing about personal finance at school in Scotland. In the survey of American credit-card holders, over half of the respondents said t learnt "not too much" or "nothing at all" about finance at school.

Americans still leave school not knowing much about money. A sample of pupils aged 17 or 18 gave correct answers to barely half of a set of questic personal finance and economics posed in 2006 by researchers at the State of New York, Buffalo. Less than one-quarter knew that income tax could b interest earned in a savings account. Three-fifths did not know the differer between a company pension, Social Security and a 401(k) savings account

The same survey, undertaken every two years for Jump$tart, a coalition o organisations in America that promote financial literacy, found that one in taken part in a course dedicated to personal finance. A further one-third sa had learnt a bit from studying other subjects, such as business or economi Levine, the head of Jump$tart and a member of Mr Bush's financial-literacy says things are moving in the right direction, but that progress is slow. Th the 2008 survey, which are unlikely to show much change, are due to be p on April 9th.

At present only three American states require that students take a course finance. Another 15 insist that it be incorporated in other courses. Beyond case of persuading schools one at a time. "Personal-finance education is no sell conceptually," says Ms Levine, "but only when it comes to getting it pr School principals will usually agree that financial literacy is worth teaching are reluctant to give it time and resources.

Even when personal finance is taught, the right lessons are not necessarily "Wherever you look in America or the OECD, classes in financial literacy do much good," says Lewis Mandell, an economist at Buffalo. "As an educator believe you can teach people to do anything right, but clearly the way we a about teaching personal finance needs to be improved."

To Mr Mandell's frustration, the only classroom method that seems consist raise financial literacy among high-school pupils is playing a stockmarket-i game—which rewards taking high-risk bets. Most other approaches tend to short-term increases in financial literacy, he says.

According to Mr Mandell, one problem is that if financial literacy is taught, be before a student's final year—before she has faced any important finan decisions, such as buying a car or taking out a credit card. Another is that are often financially illiterate, too. Financial literacy may be less about acq knowledge than forming good habits, something that is arguably better do high school, let alone adulthood.

This is where Aflatoun comes in. Ms Billimoria encountered a great deal of when she developed her financial-literacy programme for six- to 14-year-o she was convinced that starting with youngsters would be more effective, that is "when their concept of themselves is developing and by 14 most of habits have formed."

An important part of the teaching is getting the children to start saving, id opening bank accounts. Typically, they have only tiny amounts, but this is get them used to handling money properly. At first this faced a lot of resis people asked, "How can young children handle money?" recalls Ms Billimor soon caught on and parents started giving children money to save." To de its broad applicability, Aflatoun was piloted in economies beset by differen difficulties. Zimbabwe, for example, was selected for its astronomical inflat The course was adapted to encourage children to save by buying assets su pencils, which, unlike the country's money, could be a store of value.

A nudge in the right direction

"The depressing truth is that financial literacy is impossible, at least for ma big financial decisions all of us have to take," says Richard Thaler, a behav economist at the University of Chicago. Aptly for someone who has built hi the study of irrational financial behaviour, Mr Thaler admits that even he fi to know the right thing to do. “If these things are perplexing to people witl economics, financial literacy is not the right road to go down.”

Instead, policymakers should “focus on making the world easier”, he argue book, “Nudge: Improving Decisions About Health, Wealth and Happiness”, with Cass Sunstein, a law professor (and an adviser to Barack Obama). By means defining more carefully and simply the financial choices that people make, and building “sensible default options” into the design of financial pı that the do-nothing option is “financially literate”. Today, the best choice t requires some working out and an active decision.

This does not mean that the same choice is right for everyone. The growin complexity of financial choices in part reflects remarkable innovation, muc has benefited consumers. As Operation HOPE's Mr Bryant points out, thanl availability of subprime mortgages, “homeownership has lifted many poor of poverty; the challenge is to make the product better.”

Sweden's system of saving for old age contains an example of what Mr Th It offers Swedes a choice of funds to invest in, but includes a well-designe default option, which has become the choice of 90% of the people. The sa approach might be taken to America's company 401(k) retirement plans, i today's choices require a high degree of financial literacy. Employees migh automatically enrolled in savings plans, with a right to opt out, instead of t under-used opt-ins.

Mr Thaler deserves to be taken seriously, as one of his earlier attempts to behavioural economics to saving has had impressive results. Recognising t find it harder to save money they already possess than to promise to put a they might have one day, he designed the Save More Tomorrow scheme, v people to commit themselves to saving a slice of any future pay increases. implemented, the plan has already brought about sharp increases in savin

Another idea would make it easier for people to choose a suitable credit ca obliging card companies to supply customers with two downloadable files, once a year. One would explain the issuer's charging rules; the other woul charges the consumer has actually incurred. The consumer could then uplo one of several websites that Mr Thaler believes would soon appear. With o the most suitable card would be recommended. A similar system could wo America's Medicare prescription programme, in which preliminary research that matching the drugs a person needs with the right insurance plan woul average $700 a year, he says.

Better product design and financial education need not be alternatives, poi Mandell. They can work in tandem. He is enthusiastic about schemes such Child Trust Funds introduced in Britain. These “baby bonds” give every chi that matures at adulthood, letting everyone start out with a nest-egg. Mr I particularly excited by the curriculum being designed to be taught in conju these funds, starting when children reach the age of seven. “Teachers will talk about money realistically, because the kids will have ownership of wea

If you can make it there

One of the most interesting attempts to combine teaching and superior pro taking place in New York, championed by a mayor, Michael Bloomberg, wh fortune selling financial information. He has created an Office of Financial

Empowerment, which is trying to use the powers of government to promot financial education and better design of financial products.

The city's regulatory powers mean that it can crack down on firms that exp financial literacy, and educate the public at the same time, says Jonathan York's Commissioner of Consumer Affairs. It has found that many tax-prep agencies are offering “rapid refunds” which, as many consumers do not rea fact loans in anticipation of refunds. Its publicity blitz about these loans lec coverage on news programmes “in 22 states and Canada”, allowing the cit promote the message that “anyone promising a tax refund within two days a loan—don't do it.”

Another initiative is to use the city's system of helping people to apply for income-tax credit as a chance to encourage them to open a bank account. explaining to applicants the importance of saving, the city is working with offer carefully designed accounts, and has even persuaded some philanthr provide matching funds for the first $250 someone saves. “You are not jus me, you are allowing me to nod my head and say yes, and get a windfall,” Mintz. “Financial education is much more effective when it is connected to real that is happening.”

With Miami, San Antonio, San Francisco, Savannah and Seattle, New York formed the Cities for Financial Empowerment Coalition, which met for the to share ideas on March 18th. There was general agreement that educatio better product design should go hand in hand. Most big banks have startec sponsor financial-literacy efforts, if only to cover their backs. However, Mr remarks, by increasing the charges for bank accounts with only small bala have in effect deprived children of what was traditionally the best practical educational tool, an account of their own.

Indeed, one of the biggest problems may be the illiteracy of financial-servi which often fail to provide the products that poor consumers most want. T least, seems to be the conclusion of a recent survey in two of New York's p neighbourhoods. Many people were using fringe financial products such as loans or money orders rather than the services of mainstream banks.

The mainstream financial providers are “missing genuine markets”, says M “One of the open secrets in this industry is that when people are engaged behaviour that seems irrational, often it has a rational basis.” Which only g show that consumers are sometimes only as literate as the products the fi services industry chooses to sell them.

Mr Bryant makes the same point more colourfully, noting that some of the people to be hit by the subprime-mortgage crisis were the very brokers wh people inappropriate mortgages. Having drunk their own Kool-Aid, they fo themselves with enormous debts and no job. “It takes less credentials to b mortgage broker than a pimp on a street corner in Harlem,” he says. “Beca pimp needs references.”

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