

## Viewpoint: The plague of economic illiteracy

By Andrew L. Yarrow

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With the Dow Jones down by nearly 40 percent over the last year, \$2 trillion in retirement savings vanishing in the last few weeks, 2.2 million foreclosures in 2007, and America's national savings rate at zero, the country's current anxiety certainly seems warranted. But, as psychiatrists would say, anxiety is based on apprehensions about the unknown, whereas fear is based more on informed knowledge of danger.

This is not to say that well-informed fears about the U.S. and global economic crises don't grip millions of Americans as they see their 401(k)s shrink and hear dark-suited financial poohbahs gravely intone about nearly frozen credit markets, collapsing real-estate and financial markets, inflation and commodity-price volatility, increasing unemployment and falling consumption. Certainly, most would say that our "economic fundamentals" are not "strong," but few could go far in defining what those "fundamentals" actually are. Indeed, the current crises cast Americans' woeful lack of economic knowledge into sharp relief.

The statistics are sobering, if not humiliating: Just one-third of Americans understand how credit cards work; only half of those over 50 can approximate how much their savings would grow at a 2 percent interest rate, according to Dartmouth economist Annamaria Lusardi; 60 percent of 18-year-olds don't know the difference between Social Security and private pensions, reports University of Buffalo management school dean Lewis Mandell; and many Americans - pandered to by presidential candidates - think that the nation's half-trillion-dollar federal deficit could be solved by ending earmarks and government "waste." Even half of those with at least a master's degree working at Harvard University couldn't identify from prospectuses which investments incurred lower fees, according to Harvard economics professor David Laibson.

Ever since business, government, and educational leaders first systematically tried to introduce economic education into schools and workplaces after World War II, a host of organizations have made increasing Americans' financial (or economic) "literacy" a priority. From the National Council on Economic Education and Junior Achievement to an inter-agency government Financial Literacy and Education Commission, many efforts have been made to teach everyone from schoolchildren and college students to workers and retirees a basic understanding of economics.

But the results have been underwhelming.

This is not to say that Americans need to master the arcana of the "dismal science" to survive, but it is imperative for personal and national well-being that citizens have a much better sense of both personal finance and how the economy works.

Why?

You don't need to be [Adam Smith](#), or [Ben Bernanke](#), to recognize, as *Cabaret* lyricists did, that "money makes the world go around." While our world is defined by many nonmonetary things - beauty and love, family and community, the environment and security, values and learning - we live in a highly complex economy in which financial decisions at the personal, corporate, governmental and international levels affect almost every aspect of our lives. We need to be better informed economically to make sound decisions about personal savings and spending to improve our retirement and lifelong economic security. We also need to be better informed about macroeconomics and public finances - to know what does and doesn't promote economic growth and how and why taxpayer dollars are spent as they are - to make judgments and support policies that can bolster our national well-being.

So what do we need? Web sites, a bigger commitment by government and business, incentives, public service announcements? Yes, all of the above - and more.

Despite many state laws requiring K-12 economics instruction, schoolchildren should get a more in-depth education that goes beyond Balancing Your Checkbook 101. College students could adopt modules such as Public Agenda's new Students Face Up to the Nation's Finances - on federal budgeting and the causes and effects of rising national debt - which can be integrated into existing courses. The new Peterson Foundation is supporting other college and high school-level economic-education initiatives, including fiscal "games." For workers, an especially "teachable moment" for financial education is when they are newly hired, suggests Ms. Lusardi. And AARP offers extensive financial planning information, serving a particularly key niche given Dr. Laibson's concern that later-life cognitive decline may adversely affect individuals' financial decision-making.

But the trick, as with any pedagogy, is to figure out what works. Just dishing out facts doesn't. In the personal-finance sphere, one approach is to provide "nudges"

for individuals to make more financially sound savings and other economic decisions, indirectly leading to better understanding of the reasons for their choices, as Richard Thaler and Cass R. Sunstein have written in *Nudge: Improving Decisions About Health, Wealth, and Happiness*.

In teaching public finances and macroeconomics, the way to go may be games and other forms of active public engagement. Whether it's my students' enthusiasm in becoming mock policymakers to reform federal finances in the Students Face Up exercise, or my 11-year-old son figuring out how to most efficiently allocate resources through games such as Sim City, such engaged and engaging learning provides more effective "teachable moments" than statistics-besotted texts or lectures.

While the present economic environment may give us good reasons for fear, through better economic understanding we can help optimize real-world individual, national and global economic outcomes. We might even be able to better save for retirement and our children's college educations, bring some sanity to the federal budget, and make wiser investment and work-related decisions, all creating macroeconomic ripples that help lift the Dow out of the doldrums.

Andrew L. Yarrow, vice president and Washington director of Public Agenda, teaches at American University and is project director for Students Face Up to the Nation's Finances ([www.facingup.org/faculty](http://www.facingup.org/faculty)). He is the author of the book, "Forgive Us Our Debts: The Intergenerational Dangers of Fiscal Irresponsibility." His e-mail is [ayarrow@publicagenda.org](mailto:ayarrow@publicagenda.org).