

Financial mess stems from poor math education

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QUOTE: *"The average American cannot answer basic math questions involving percentages."*

By: JAMES BOWERS

Every few years, 15-year-old American students participate in the Program for International Student Assessment, a standardized test comparing student skills in various countries.

And every few years, our students fail the math section. On the last test we finished 22nd out of 26 countries.

Our organization, the Center for Economic and Entrepreneurial Literacy, has just released the startling results of a survey that shows our financial literacy tracks our math skills.

According to our survey, the same math problems plaguing 15-year-olds continue to vex us into adulthood. The average American cannot answer basic math questions involving percentages.

For example, 65 percent of respondents could not identify what remained if you subtracted 25 percent from eight. Another question revealed that 1 in 3 adults could not calculate 1 percent of 50,000.

In grade school, a math mistake means a red mark on your test. Out in the real world, those miscalculations can cost real money.

When large swaths of the population are making the same mistakes - like agreeing to mortgage obligations they can't really afford - we end up with the foreclosure problems we see today. These were not inevitable outcomes.

We can try to pin the blame on Wall Street bankers, Congress or Washington regulators - and sure, they bear some responsibility. But ultimately we need to address the underlying problem: our complete failure to provide students with vital thinking skills in math and financial literacy.

This is a nation in which only three states require a high school course in personal finance, and our survey results bear that out.

Besides their surprising inability to calculate percentages, our survey also found that more than half the respondents couldn't define a subprime mortgage and a similar number did not recognize the role of the FICO score in applying for credit.

This is particularly troublesome given the number of people accessing credit. Borrowing against future income can be tremendously useful, but it carries serious risks.

It's hard to make sense of it all and the competing interest groups out there don't make the task any easier. All too often, financial common sense gets drowned out by slick marketing and political rhetoric.

For instance, you've surely seen car companies advertising zero percent interest rates. But I guarantee you'll get a discount on those cars if you pay cash up-front (they'll call it a rebate).

If taking an "interest-free" loan means you end up paying more, you're paying interest - regardless of what the car salesman tells you.

Simple fees get translated into confusing annual percentage rates. A short-term payday loan doesn't sound like a good solution when described as 391 percent annual percentage rate. But analyzed the same way, it's a better idea than bouncing a check where common bank overdraft fees can be as much as 4,954 percent APR. (Actually, in both cases, the percentage fees are not accurate ways to describe the cost.)

It's a lack of understanding on these issues that results in many Americans taking on car and home loans they can't afford, and even more of them overdrawing their bank accounts.

A new FDIC study showed that banks make billions of dollars in overdraft fees - an expense that disproportionately targets low-income and uneducated Americans.

Half of our survey respondents admitted to having overdrawn their checking account at one time or another. Somehow these hidden fees have become an acceptable part of our culture, in part because so many of us lack the basic math skills to understand how raw a deal they really are.

Car loans, payday loans, credit card advances and mortgages are financial tools with a place in our economy. Armed with the right information and financial know-how, these tools can help American families move to better neighborhoods, buy cars to drive to work and help cope with unexpected expenses.

But without the proper financial knowledge, reckless borrowing can lead to economic hardship.

Preventing poor loan decisions begins with education in math and personal finance. It was misinformation and financial ignorance that got us into this mess. By increasing education on economic and financial topics, for students of all ages, we can avoid making the same mistakes in the future.

James Bowers is the managing director of the Center for Economic and Entrepreneurial Literacy (www.Econ4U.org), a nonprofit organization that promotes financial literacy.

Comment: Professor Samuel D Bornstein

Financial Literacy Will No Longer Do: The Solution is “Immediate and Specific Financial Guidance.”

I agree that students and consumers are lacking in the basic financial skills which are required to make informed decisions in life. Of course, the lack of the understanding of math concepts is important, but there is a more significant weakness, and it is not being addressed in our schools nor anywhere else.

There is a schism between what we need to know and what we actually understand in our complex financial and credit-based economic environment. This is because, at least in part, we teach remarkably little about money and credit in our schools, and unfortunately, what is taught is often not understood.

Most Americans are like a “Boat without a Paddle” when it comes to the ability to use Financial Understanding for sound financial decision making. We are living in a very complex financial environment. However, we lack the financial “understanding” to make informed decisions that affect our lives. Our level of Financial Literacy has lagged far behind the pace of the complexity of financial matters. This is the cause of our problems.

There is a need for “financial guidance” as is evidenced by the Subprime Mortgage Crisis, the growing number of personal bankruptcies, the dangerously high level of credit card debt, the low savings rate, the lack of retirement planning, etc. Financial guidance will be especially effective for the Subprime Mortgage borrowers who are currently at risk of mortgage default, foreclosure, and financial distress.

We will repeat our financial errors, UNLESS we direct our national attention to addressing this weakness in our national character. I have been an educator for the past 30 years as well as a CPA/Consultant. I have researched this issue for the past 8 years and have concluded that the "Delivery System" for education is flawed. We require a new means of delivering Education that stresses "Understanding and Comprehension" because "Learning" which should be the basis of "Education" is not happening.

There is a Chinese proverb...TELL ME AND I FORGET, SHOW ME AND I REMEMBER, INVOLVE ME AND I UNDERSTAND. The Delivery System that will work involves a technology called Artificial Intelligence and "Intelligent Tutoring Systems". This delivery system is the wave of the future in Financial Literacy Education. I welcome further discussion.

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