New American

Written by Beverly K. Eakman on May 4, 2010

Most Americans Are Clueless About Economics and Markets

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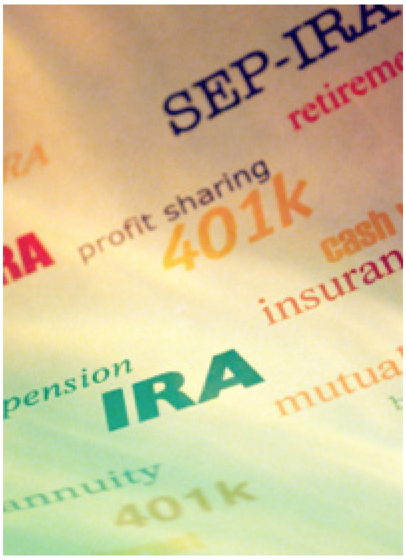

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A survey by the Council for Economic Education (CEE)/State Farm Insurance recently found that:

• Only 19 states required the testing of student knowledge in Economics, four fewer than in 2007.

• The number of states that require students to take an economics course as a high-school graduation requirement increased from 17 in 2007 to 21 in 2009.

• The number of states that require students to take a personal finance course (or personal finance included in an economics course) as a high-school graduation requirement increased from seven in 2007 to 13 in 2009.

• Thirty-four states now require that personal finance content standards be implemented, up from 28 in 2007.

• Five states required entrepreneurship to be included as a component of a high-school course, usually economics, required for graduation in 2009, up from just three in 2007.

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Moreover, several studies have determined that a majority of our K-12 student population has never been exposed to economic and financial education. CEE/State Farm surveyors say that "until these subjects are considered mandatory alongside mathematics, English, history, and science, we will be potentially setting them up for failure in the future."

Reporters note that public schoolers are getting too little in the way of math, English, history, and science as it is, most of their daily routine being spent on sports, sex, social studies (not the same as "history"), "relationships," and other trivia in no way connected to monetary realities. Even most private schools are woefully inadequate when it comes to economics, and have been so since the 1950s when this author attended.

Consequently, a whole range of news items — Goldman Sachs, government bailouts, deficits and the Gross National Product, subprime lending and mortgages, the excesses of Fannie Mae or Freddy Mac, hidden taxes, and the housing bubble — is lost on much of the populace.

Middle-class employees who *do* play the stock market do so blindly. We take advantage of whatever money market and IRA opportunities are available from our workplaces, understanding little concerning the difference between the company's "family" of investment choices. For example, the federal government's Thrift Savings Plan offers a menagerie of "G" funds, "S" Funds, "C" funds, and so on, which are explained, sort of. But without any background in economics, most workers are ill-equipped to understand the explanations, much less assess the risk and reward of any investment.

Moreover, most workers don't know a 401K from a hole in the ground; all they do know is that signing up is probably more lucrative than their bank's savings account. So they take the plunge and sign up. Penalties for early withdrawal become hazy once they actually need to withdraw.

People may be familiar with the term "Federal Reserve," but other than the names Ben Bernanke, Alan Greenspan, and maybe Paul Volker, which they hear on the nightly news, they're largely clueless. Certainly most folks don't know the difference in these experts' economic philosophies, much less the long-term effects of legislation promoted by Christopher Dodd (D-Conn.) and Barney Frank (D-Mass.) that contributed to the current financial mess. "Equity," "stock options," "yields," and "junk bonds" are typically a blur to the average worker, and key publications like Adam Smith's *Wealth of Nations*, Friedrich Hayek's *The Road to Serfdom*, the *Kiplinger Newsletter*, and Milton Friedman's *Free to Choose* put most people to sleep. Needless to say, these tomes are not assigned in high schools, nor are they required basics even for non-economic majors in college.

This is not to say that certain expressions, such as "junk bonds," don't occasionally sound familiar, at least to the college grad. But basics about investment and finance nevertheless are largely absent; K-12 (and even SAT) testing on such topics is virtually nonexistent. Young people don't know, for example, that the term "capitalism" was coined by communists as a pejorative or sorts to describe a free-market system.

Thus are the risks and rewards of any discretionary capital left to others to figure out, along with taxes, any bonuses, or inheritances. Finance enthusiasts such as day traders, junk-bond dealers, and real-estate investors (who buy run-down properties, glitz them up as cheaply as possible to sell quickly for a handsome profit) are in a little better position for having gotten the investment "bug," but these individuals are the exception, and even they often overextend for lack of a truly solid economic education.

The average Joe and Jill, however, are at the mercy of financial planners, which sadly includes charlatans and Ponzi schemers, whether the investment in question is cattle futures, gold and silver, electrical equipment, real estate, theme parks or pensions. Folks approaching that magic cut-off salary of $200,000 a year are easily fooled into believing that they fit into the category of "rich," when such is far from accurate, given today's expenses, many of which are obscure. For instance, a private school for two children is typically out of reach for $200,000-a-year employees. Every appliance needs major repairs as soon as the warranty runs out, which generally means that it is not worth the cost of repair.

One cannot just buy a 50-cent washer for a dripping faucet or replace a simple switch on the clothes dryer. Typically, such repairs require the purchase of what is called a “mother board,” a whole new electronic unit; a washing machine, refrigerator, or dishwasher will require a new motor, clutch, or heating element; the countertop combination microwave/convection oven that needs a 15-cent door latch will conveniently be no longer available for your model — all of which, is to say that, with labor included, the cost is rarely justifiable. Similarly, your computer or cellphone, bought only three years ago, will be deemed “obsolete.” As per the familiar TV commercial, “No one buys a cell phone just to make telephone calls anymore.”

Then there’s your much-vaunted health insurance. It rarely comes even close to paying healthcare needs, with the exception of some prescription plans. In fact, it is hardly worth the paperwork you put into it. One could make a lot more by spending the same time working an extra job!

Of course, some 47 percent of Americans pay no income taxes, yet they continue to get freebies paid for by responsible taxpayers. No wonder many folks “max out” their credit cards and just use the new one which is sent, inexplicably fully approved and with large limits, via snail-mail. Speaking of which, your snail mail costs seem to rise with the weather, even while your pitiful mailbox nearly is collapsing under the weight of unwanted catalogues.

Meanwhile, the truly rich, such as the likes of the entire esteemed Kennedy clan, House Speaker Nancy Pelosi and family’s estimated $400 million a year in “earnings”; and a laundry list of congressional representatives, actors, and sports stars who also make hundreds of millions of dollars every year, all are laughing all the way to the bank.

No wonder so many Members of Congress push the kinds of financial “reform” which presume that most working taxpayers are dunces in need of extreme regulation, draconian “safety nets,” and, of course, a “benevolent” Nanny State.

Literature on entrepreneurship, with all its petty rules and regs (e.g., equal opportunity (EEO) paperwork, Occupational Safety and Health Administration (OHSA) rules); news stories on proposed Wall Street makeovers; supposedly idiot-proof schemes to rein in Freddie and Fannie and cap-and-trade legislation to fund questionable climate-change science, that even United Nations spokespersons have referred to as “redistribution-of-wealth,” are way over the heads of most Americans. Little wonder that the so-called “common man” casts a jaundiced eye upon the whole “capitalist system,” which explains why we now are on the brink of socialism.

Self-sufficiency is deemed unattainable (if not downright mean-spirited) and has been replaced by ethics like “interdependency” and “free-market socialism,” the later being an oddball combination of overregulation, high taxes, and stocks. Totalitarian societies like China have been making use of such unlikely concoctions for years, and we are about to join them.

The ignorance surrounding a free world market plays out in ways that would puzzle our great-grandparents, most of whom are now on their death-beds. Some of them, of course, thought to create trust funds for their progeny, but government is finding ways around that, too, the death tax being only the most familiar.

Yet, there are plenty of educational materials on finance out there, just as there exist many sources for accurate history “out there.” It’s just that average people either don’t know about them or are too captivated by Oprah and *American Idol* to bother. Notice that there is no dearth of sales for Oprah’s magazine, *O*, or for tabloids publicizing the latest exploits of “the stars.” Such discretionary income, however, would be better spent on economic education, such as PBS's videos from the *Nightly Business Report*, "How Wall Street Works" and "Your Financial Future: Kids and Money"; *Why Money Was Invented* (Silver Burdett Press); *Kiplinger's Smart-Money Kids* (Random House); a whole line of publications for young people put out by Stein Roe Mutual Funds; resources for educators and parents offered through the Jumpstart Coalition; and much more, all of which one can find online or at the library. These sources have an angle or philosophy, or course, and consequently there is no substitute for basic courses in economics.

It is incumbent upon every parent, therefore, to make a priority of ensuring that their children's education includes economics courses, whether the school offers them or not. Every child (regardless of family income), beginning in about the sixth grade, should also be tasked with some form of money-making activity, whether it is mowing lawns, selling lemonade, or even performing simple services like scrubbing lawn furniture for neighbors who can no longer perform these activities without risking injury. If items need to be purchased, if one or more licenses are required, or if certain state and local rules apply, the child should pay these costs out of earnings from still other tasks, such as babysitting. The gain to the child from such chores is three-fold:

• They teach what kinds of jobs are available without a diploma or degree;

• They keep kids out of trouble — i.e., away from "hanging around" malls and poorly supervised peers; overstimulation from TV and videogames;

• They explain how much must be spent simply to start, much less engage in, a business venture.

Moreover, economics and finance cut through all the drivel about race, gender identity, career ladders, and even "attention-deficit "disorder" (kids will have no choice but to "pay attention" if they want their money). If Americans are to escape the coming scourges of socialism and the Nanny State, their offspring must learn the basics of finance beginning in childhood. An allowance alone simply will not do. Aging Baby Boomers are already paying the price for that sort of thinking.

Beverly K. Eakman is a former educator and retired federal employee who served as speechwriter for the heads of three government agencies, as well as editor-in-chief of NASA's newspaper (Johnson Space Center). Today, she is a Washington, D.C.-based freelance writer and columnist, the author of five books, and a frequent keynote speaker on the lecture circuit. Her most recent book is Walking Targets: How Our Psychologized Classrooms Are Producing a Nation of Sitting Ducks *(Midnight Whistler Publishers).*