

Debt comes home to Canadians

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Dozens of British Columbia 10-year-olds are about to get a lesson in a subject their parents have failed miserably: debt management.

Next term, if all goes well, Grade 5 and 6 students at a yet-unnamed school board in the greater Vancouver area will take part in a unique trial project, thought to be the first of its kind in the country. Hatched by the Credit Counselling Society of B.C. and its president, Scott Hannah, the program would see a handful of regular teachers pulled out of their classrooms, paid by the credit agency while they absorb the basics of credit and debt literacy from its counsellors, then take that knowledge back to the kids.

Why teach youngsters about the mechanics of borrowing and spending? Largely because it's an education their parents never received, says Mr. Hannah. And because without better money management skills, the next generation of taxpayers may just wind up a bunch of bankrupt bozos with no control over their future.

Fuelled by cheap credit and willing lenders, this was the year Canadians' appetite for borrowing like Americans came into full view. The average household debt-to-income ratio ballooned to 148.1% in the third quarter, higher than the United States for the first time in 12 years.

"When our Prime Minister starts talking about the need for Canadians to live within their means, it's concerning," Mr. Hannah says. "You have so many people who are right at that edge and all it takes is a missed paycheque or two and they're [in trouble]."

Mr. Hannah, 52, learned his lessons early on. When he was 10, he received a weekly allowance of 25¢ from his parents. It came with a catch: He could spend 10¢ of it on anything he wanted but he had to bank the rest. One time, a friend suggested he blow the whole thing and he did. The next week, his parents withheld his allowance.

Fast forward to 2010. Many adults shun such financial discipline. And saving is frequently an afterthought.

"The difference today is that 'Oh no, we buy the house and it's got to be outfitted to the nines and we're going to use credit,'" Mr. Hannah says. "Our society has gone away from delayed gratification to immediate gratification. You've got to have more and more."

Whether preteens will actually retain the message of not spending money they don't have is another question entirely. In fact, being financially irresponsible might be more the natural human condition than the exception.

Yale University psychologist Laurie Santos's most recent research concerns the question why human beings make such glaringly stupid mistakes over and over and over. Why does the supposedly wondrous technology we create to extract resources from the ground blow up in our face like the BP PLC Deepwater Horizon oil rig disaster? How did the supposedly ingenious capital market structures we created fail?

Her basic question was where do these mistakes come from? And she saw two possibilities: Humans are so clever that they've made their environment too complex to deal with it. Or there is something about their inner nature, stripped of their surroundings, that is just badly designed.

In other words, we're just error-prone.

To find out, she did an experiment with an animal that's almost as smart as human beings but has none of their baggage — the monkey. Brown capuchin monkeys to be exact. To determine if they start messing up as people do, she turned to a financial scenario: Give them fake money to see if they can make economic decisions.

What she found, and shared this past summer at the TedGlobal conference in Oxford, England, was both encouraging and alarming. The monkeys were smart enough to recognize that pieces of metal they were given could be traded for food. But they always spent every metal token they had, never saving a single one. And there was spontaneous evidence of larceny: The monkeys swiped every token they could find, ripping off other monkeys and the researchers.

When she gave the monkeys choices of what to do with their tokens, they also did the same irrational things that people do: They made safer bets when they could win bonus items; but they actually made riskier bets when there was more to lose.

So what would a capuchin monkey do if it owed \$25,163, not including mortgage debt, as each Canadian now does?

Probably much the same thing many of us are now doing: Deny you have a potential problem and spend more. Or reluctantly seek some advice to get you back on the path of financial health.

"The issue here is not math," says Stephanie Holmes-Winton, a financial advisor in Halifax whose client list includes several individuals who make close to \$1-million a year. "If math were the problem, everyone with a Grade 6 education would be perfectly fine with money. The issue is behaviour. We're human beings and we don't always make logical, mathematically-fit decisions."

Ms. Holmes-Winton, 32, has been providing credit counselling for 10 years. She says the problem of her wealthy clients is the same as those of her less affluent ones, namely emotional and unconscious spending.

She says that people make decisions about shelling out money too quickly. They use automated purchase tools such as credit cards and debit cards and can't see the consequences until they've already pulled the trigger on the purchase. To battle this and to create awareness, she keeps some of her clients on a cash-only budget.

"The generation that I was parented by thought it was rude to talk about money," says Ms. Holmes-Winton. "They didn't want you to know how much they paid for the house."

The financial planner's own mother, a single mom, did share those details with her in order to explain why she couldn't afford to buy certain things.

Jeffrey Schwartz, executive director of Consolidated Credit Counselling Services of Canada Inc., a not-for-profit registered charity, says more people are turning to professionals for help managing their debt. He says even as the economy rebounded, his client volume rose 15% this year over 2009.

"When people called us [in 2009], they were in panic mode. And some of them had gone through some sort of crisis, some sort of financial shock," he says. "This year, the people that are calling us are looking for opportunities to improve their situation" and gain more financial flexibility by paying down debt.

Other credit professionals, such as Greg Gogan of InCharge Canada, describe a much bleaker reality: People seeking credit help well past the point of no return, banks piling up the problem because they want to build market share, retailers with in-store credit programs that hook consumers with lengthy payback periods.

“The notion of build it and they will come is in play here,” Mr. Gogan says. “We have to look at individual responsibility but also collective responsibility on the part of companies marketing these products.”

Back in Vancouver, Mr. Hannah sees a modern society that has gone too far towards indebtedness — and a salvation in education.

“It’s surprising how many young adults come to us who are mad because their parents never said no,” he says. “Their parents just gave them stuff. They never taught them anything.”

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