NEW ROADS IN FINANCE

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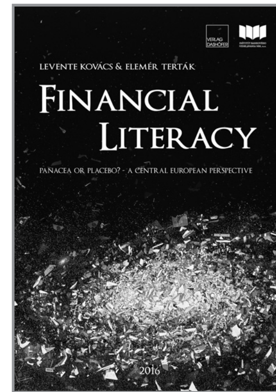

Levente Kovács & Elemér Terták
Financial Literacy
Panacea or placebo? –
A Central European Perspective
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It is a commonly known "fact" that everyone in Hungary understands football: we are a country of 10 million football managers. Everybody commentates on matches with confidence and great "expertise," drawing their conclusions about which tactics are right or wrong. We may recall how our one-time head coach *Attila Pintér* had to go after losing a single crunch match, or how the playing style nicknamed "tiki-taka" has become the target of withering sarcasm – despite being an essential element of football strategy today.

Interestingly, the same certainly cannot be said of our relationship to money. If we ask people about managing money, then the overwhelming majority get confused, despite the fact that they have been using it since the first ice cream they bought in childhood. Although we use money, we have never devoted enough time to becoming familiar with its main attributes, or making ourselves aware of its "purpose" – in the same way that we sit down at least once to watch a football match. Thanks to ads for medicines, we no longer take a single pill without first reading about the potential side-effects. When it comes to money and financial instruments, however, we feel "excused" as "we don't understand, anyway." Surveys in the field of financial literacy both at home and abroad indicate significant arrears in this regard.

So who or what is responsible for the failure of financial literacy to take root? We cannot answer this question until we recognize that we have no exact, complex picture of financial literacy itself. We have read a plethora of studies which attempt to reveal, by means of a snapshot highlighting one specific area or another, the level of public knowledge and our relationship to money, but what

is missing is a summary assessment or synthesis of surveys and thoughts on the matter. In their recently published work entitled *"Financial Literacy: Panacea or Placebo? A Central European Perspective"*, *Levente Kovács* and *Elemér Terták* make an attempt to accomplish this, examining people's relationship to money from several aspects.

It is interesting to note – but a fact nonetheless – that while people have proven able, in an autodidactic manner, to develop their body of knowledge or expertise in specific areas through curiosity or an attraction to the new, the spread of financial literacy, almost from the very beginning, has been the task of institutions working in the field: money-changers, banks, credit card companies and so forth. These institutions have needed the public to expand their knowledge of finances so that the financial products they develop become "sellable," so that they can explain to people how and for what purpose each product (bank deposit, credit, etc.) can be used. This educational aspect – as the authors point out – remains necessary to this day, since banking now faces the challenge of digitalization and the fintech revolution, where new tools (cloud computing, mobile telephones), new openings (data mining) and new products (tailor-made deposit and credit schemes) may represent an advantage for one competitor or another on the market.

The two authors place the bumpy journey towards the breakthrough of financial literacy within an historical context, demonstrating that humankind's peculiar relationship with money has essentially followed them from the very beginning. Money is truly an article for use, eloquent testimony of this being provided by the derivation of our word "usury" from the Latin "usus." The charging of interest was not stigmatized either in Rome or in early Christian culture; indeed, a fair rate of interest was expected on money lent (Proverbs 28:8; Matthew 25:27). In ancient Israel, the law only prohibited the charging of interest on loans to the poor (Leviticus 25:35–38). *Saint Thomas Aquinas* later came to "stigmatize" money by a theoretical route, when he wrote in his *Questiones Disputatae* that if we accept the use of money as something "given" in return for other things, then whoever charges interest "is either selling what does not exist or the same thing twice over, namely the money itself, the use of which is its consumption." On the other hand, others take the view that this is merely a misinterpretation, since even Thomas Aquinas did not prohibit the charging of interest in the case of "positive damage" – when the lender does not receive back their money by deadline and for this reason is unable to fulfil their commitment under a separate legal relationship – or "loss of profit" – when the money would have brought a greater profit if invested in something else. To this very day, banks essentially price their products on the basis of these two principles.

The authors' conclusion is unequivocal: we can attribute the slippage of our relationship to money unequivocally to the more or less conscious suppression of the role of banks as fundamentally intermediary institutions, which – although the capital requirement necessary for their operation is high – lend out largely not from their own capital, but from the money of their depositors. In order to be able to pay interest on deposits, they have a continuous need for size-efficient operation, low operational costs, interest revenue from lending by all means greater than interest paid on deposits, and the return of money placed out on credit. With respect to the portrayal of banks in a negative role, we never encounter a bank depositor or bank small shareholder who rightly demands the return of their loaned forints from a debtor unwilling to pay up. With examples taken from the real world (without mentioning it, but through the story of Quaestor and the notorious "Broker Marcsika" who ran Kun-Mediátor), the authors also show how this side of things only becomes the focus of attention when people feel cheated because expected promises of yields have not been fulfilled, when they might have at least suspected – if taking even only minimal notice of the given economic circumstances – that this also carried a serious risk.

It is a big question how much of a role greed plays in hindering the spread of financial literacy, perceptible both in the desire for "risk-free" yields greater than market yields and borrowing in excess of available means. The authors remain in the realm of facts, and – without apportioning blame and by establishing rational chains of cause and effect – seek instead to enumerate who – from bankers to politicians, and from sometimes excessively regulating supervisory authorities to bank customers – bears what responsibility for the incomprehension, rather than recognition, with which people respond these days when asked if they have read and understood the terms and conditions in small print. When we buy a pair of shoes, we spend a long time looking and trying on several pairs before making our final decision. But when taking out a loan that may decide our family's economic options for years to come, we decide within a matter of hours, and – honourable exceptions aside – fail to compare the products available to us.

Can the spread of financial literacy prove a panacea in such an environment? Kovács and Terták reach the conclusion in their book that, in reality, the foundations of financial knowledge must be established at the very beginning, in childhood. In this respect, the authors attach great significance to the Pénz7 series of events held for the third time in Hungary in 2017, where – in conjunction with European Money Week, a pan-European initiative – every third primary or secondary school pupil now gets to encounter money and the

functions of money management through practical tasks with a playful angle. Although it is not possible to work off the backlog in financial literacy among the adult populace, at least the children of the new digital world will not have to enter the labyrinth of financial products with a handicap as great as that borne by their parents.