# Low interest rates have turned us into a country of money klutzes

By Rob Carrick
November 6, 2017 – *The Globe and Mail*

The single worst thing to happen to this country's personal finances in the past 10 years is the decline in interest rates.

Remember that as we make our way through another Financial Literacy Month, with its helpful suggestions from government agencies, banks and others. There's a view that we can teach our way to better standards of financial literacy, and it's valid for sure as long as it's done in a way that engages people.

But we also have to recognize that high debt loads and modest savings rates aren't personal choices made in a vacuum. They're also a response to economic conditions that would have seemed freakish a decade or more ago. In a sense, we have the level of financial savvy we deserve, based on the country's economic policies.

This is a world problem, not something unique to Canada. The global financial crisis that began 10 years ago drained the energy from large parts of the global economy and interest rate cuts were used to keep individuals and businesses spending. The response from Canadians was massive. Almost immediately, people started borrowing money to buy houses, cars and other things.

The ratio of debt-to-disposable income has risen steadily and sits at a record 167.8 per cent as of the most recent tally. In a sense, this earns us a failing grade on financial literacy. We borrowed more despite weak economic growth that has kept a tight lid on income growth and put many people into temporary instead of permanent jobs.

The number of people defaulting on their loans, which means being more than three months overdue, is quite low. But financial stress is evident in the results of surveys where people are asked how they're managing their debt loads. Sample: In a recent survey by the insolvency firm MNP Debt, half of respondents said they regret the amount of debt they have and 56 per cent said they are $200 or less per month away from not being able to pay their bills and debts each month.

"This comes down to a fundamental lack of financial literacy," one particular wealth management company said in a recent news release pegged to the MNP survey and Financial Literacy Month. The number reflects "an obvious gap in what families and individuals need to know and what they've actually been taught about managing their money."

Well, sure. The most basic rule of personal finance is to live below your means and save or invest the difference. But economic conditions invite less optimum behaviour. The economy, surging ahead only a few months ago, now seems to be stuck in a rut again. That means we'll continue to see Canadians being urged to borrow through the continuation of low interest rates.

Using low rates to support buying of houses, cars and more is the central economic policy of Canada and other countries. In exploiting these rates, Canadians are basically doing what they're supposed to.

Teaching financial literacy can help people make better decisions about spending. But the low-rate mentality works against this. Because cheap mortgage rates have driven a surge in house prices in some cities, buying a home seems the most financially literate thing you can do.

Zero-per-cent car loans also look smart, even if they tie up your cash flow for seven or eight years and often require you to pay top price for the vehicle. And home equity lines of credit seem smart because they require you to pay only the interest amount every month. If rates are low, a HELOC is a light burden.

Low rates have promoted a culture of guilt-free consumption. Financial literacy, no matter how it's taught, comes down to denial. Spend less today to save more for tomorrow. The future of financial literacy may be in giving people incentives to save and cut debt as opposed to just talking about it.

One suggestion would be to reignite the savings culture that Canada Savings Bonds once offered through payroll deduction at work. Would a bank specializing in high-rate savings accounts like to partner with employers to offer workers a premium rate if they commit to a regular savings plan taken off their paycheques?

Higher interest rates will fix a lot of what's wrong with financial literacy by making it more expensive to borrow and more rewarding to save. But the transition to a higher rate world will be messy for those already heavily in debt. Financial literacy's top challenge today is to prepare Canadians for this shift.