Income and property inequalities, household debt

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Causes, consequences and possible solutions

Expert study for the Association of independent trade unions (Asociace samostatných odborů)

Authors:

Mgr. Pavel Dohnal, EFA

Mgr. Ivan Procházka, EFA

Mgr. et Mgr. et Mgr. Alena Středová, EFA

Partners

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Description of the study content

The most visible manifestation of polarization in a society are income inequalities, which are also characteristic of the Czech Republic. Even in times of economic growth, there are households in the Czech Republic that find themselves in the so-called poverty trap. Some people thus find themselves in poverty without a way to escape. The efforts to overcome poverty are for many households associated with a sense of hopelessness, which also affects dependent household members (children). A widening of property and income disparities can reduce the potential of a national economy and it is therefore necessary to minimize the number of cases caught in the poverty trap.

Objective of the study

The aim of this study is to describe the current state of income and property inequalities in the Czech Republic and to identify factors that prevent individual households from escaping the poverty trap. Our study also proposes measures how to minimize poverty in society.

Content

1. Introduction

The aim of this study is to address the issues of income and property inequalities in the Czech Republic, their causes, consequences and possible solutions.

Is our society really polarized? Do we have just the rich and the rest? Or do we have the rich, a middle class and the poor? Are typical social groups forming in our society, and if so, are there differences regarding the income and property of these groups? What does the level of income and property depend on? What level of financial literacy in terms of income, property, education and family relations do we find in our nation?

How much do we crave expensive cars, the latest mobile phones or homes crammed with state-of-the-art technology, and why? What are we willing to sacrifice for a comfortable life? How is it possible that reasonable educated people can sometimes make such unreasonable financial decisions? Do material goods and consumerism bring us happiness and satisfaction in general? Can really all of us afford all those things that we purchase in such an abundance? And why is every tenth Czech over age 15 under distrainment today?

These were some of the questions that we will ask and try to find answers to in the text below. The individual topics will be set in a theoretical context and will be illustrated by real life examples. We will present our own ideas, expert opinions and results of available sociological researches.

In conclusion, we will pay attention to the question of a meaningful allocation of the family budget, we will point out risky and financially erroneous behavior and propose some recommendations that we believe will contribute to a sustainable improvement of the financial situation of Czech families and thus a happier life for us all.

2. Income and property inequality in the Czech Republic

2.1 Inequality of income

Income inequality is generally monitored using indicators based on comparing X percent of the country's richest population with X percent of the poorest population. The Czech Republic is surprisingly homogeneous in such comparisons.

In 2015, a survey called Living conditions 2015 (Životní podmínky 2015) was carried out for Czech households, which showed that 10% of the richest people have about 5.2 times higher incomes than 10% of the poorest population. If we use the more frequently used income inequality coefficient S80/S20: In 2015, 20% of the people with the highest incomes accounted for about 3.5 times more income than 20% of those with the lowest incomes. Over the last fifteen years, this value has been more or less stable, ranging from 3.4 to 3.6 without an apparent trend towards higher or lower values.[1] Thus for the year 2018 we find the coefficient of income inequality to be at 3.5.

This data is especially astonishing, because the difference between the richest and the poorest people in the Czech Republic is the smallest among all of the EU countries. One could therefore argue that income inequalities are not very characteristic of the Czech Republic. Besides the Czech Republic, a low income inequality coefficient can also be found in Nordic countries like Norway, Finland and Iceland. The EU average has been around five in the long term, it is slightly above 6 in Romania, while in Bulgaria the richest have even eight times the income of the poorest.[2]

Ms. Brázdilová (see Note 1) also mentions the Robin Hood (Hoover Index), which is an indication of how many percent of income must be redistributed in order to achieve a completely even distribution of income. For the year 2015, this index was 17.4% in the Czech Republic, which means that income

[1] Brázdilová, Michaela: Income inequality in the Czech Republic, 2016. Source: https://www.statistikaamy.cz/2016/08/prijmova-nerovnost-v-ceske-republice/
[2] Luštinec, Ondřej: Eurostat: The difference between the richest and the poorest is in the Czech Republic the lowest among the EU countries, 2018. Source: https://www.irozhlas.cz/ekonomika/nerovnost-prijmu-ceska-republika-eurostat-evropska-unie-mzdy_1804271431_dp

equality would be achieved if less than one fifth of the income was distributed from the rich to the poorer people.

Mr. Luštinec (see Note 2) illustrates the situation from the point of view of the so-called Gini coefficient: the Czech Republic is keeping the value 25 on a scale from 0 to 100 (where 0 is maximum income equality and 100 a minimum one). As a comparison, in Germany the value of this indicator has increased to around 30 in recent years.

The reasons for the relative even distribution of income in the Czech Republic are seen by experts both as a consequence of Communism, which restricted and distorted individual earning possibilities, as well as a result of a successful transformation of the post-communist economy to a capitalist model, and also the result of a generous social system and high income taxation, which allow for redistribution of money from people with high incomes to people with low incomes (Marek Dřímal, banking economist of Komerční banka).[3] Among the people with the most equalized income are especially pensioners, and the largest differences of income are found for self-employed people (Brázdilová, see Note 1).

However, there is a substantial lack of methods for comparing the "richest" with the "poorest", as Jan Bureš, chief economist at Patria Finance, points out: "They work with a ratio of 20 percent of the richest and 20 percent of the poorest people in society and they practically do not reflect the rest, and according to other indicators, the Czech Republic is worse off than some of the similar economies, such as Slovakia or Slovenia." (Luštinec, see Note 2).

2.2 Property inequality

When monitoring property inequalities in the Czech Republic, we encounter a lack of relevant official statistical data (output of the Czech Statistical Office (ČSÚ) or the national bank ČNB). This was pointed out e.g. by the researchers Dubská and Zeman (p. 30).[4] For the purposes of this study, however,

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[3] Luštinec, Ondřej: Eurostat: The difference between the richest and the poorest is in the Czech Republic the lowest among the EU countries, 2018.
Source:https://www.irozhlas.cz/ekonomika/nerovnost-prijmu-ceska-republika-eurostat-evropska-unie-mzdy_1804271431_dp

4 Dubská, Zeman: Analysis of the development of inequality indicators in the Czech Republic and their impact on the growth potential of the country, 2015. Source:

it is not necessary to disclose the amount of people's property in absolute terms. We will be satisfied with a relative comparison of individual groups of people, by dividing them into several financially similar categories.

On the other hand, from the point of view of the topic discussed, it is essential that the amount of a persons' property generally depends to a large extent on their income. Especially for the low-income groups, there is an explicit direct correlation between the amount of property and their active income. The main reason is that these groups of people rely largely on their wages and do not focus on generating other sources of income.

On the other hand, accumulated family assets and a greater number of different sources of passive income (entrepreneurship, rented real estate, income from capital assets, income from investments in other people's business activities or start-ups etc.) play another important role for the high-income groups. According to Thomas C. Corley, at least 65% of the millionaires he has ever met had at least 3 different sources of income before earning their first million dollars.[5]

The key factor affecting the amount of property of people is the ability to understand the financial context and to manage their money correctly. A well-known quote by Henry Ford very accurately describes the mistake that people often make, which prevents them from building up greater wealth: "You don't become rich from the money that you earn, but from the money that you don't spend." As the old folk wisdom says, appetite grows while eating: the authors of this text could see every day that if a person earns 20,000 a month, they spend it and are satisfied. If such a person gets a raise of let's say five thousand, he will most likely again have an empty account at the end of the month as before, and he will not even notice where the added 5,000 went.

The deepening property differences result from different ways of thinking about values and money, and above all from different financial habits passed down from generation to generation in families. While the wealthy (and we mean here the *wealthy mentally*) always first focus on maintaining or increasing the volume of their assets and on generating publicly beneficial values, and on luxury they

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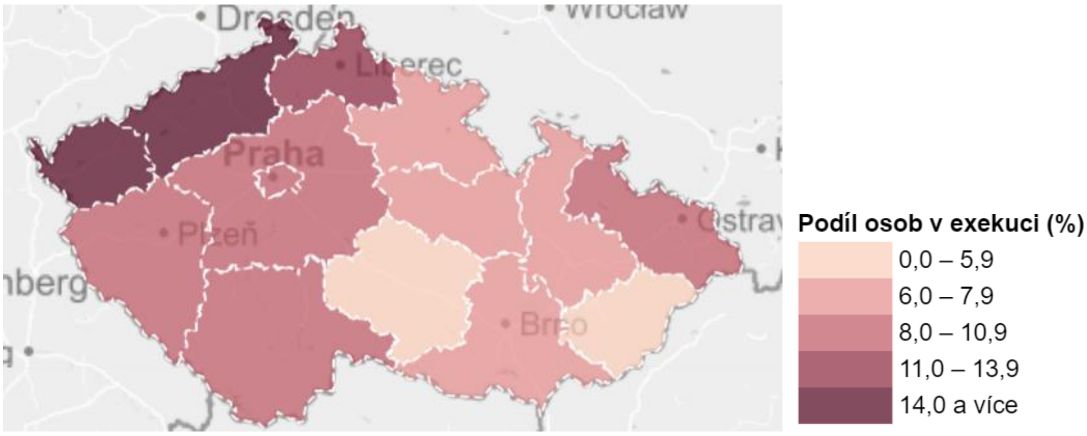
https://www.vlada.cz/assets/ppov/udrzitelny-rozvoj/CR-2030/dubska-Analyza-defin-vc-priloh-C-opraveno_def_2016_11_24.pdf

[5] Corley, Thomas C.: Change Your Habits, Change Your Life: Strategies that Transformed 177 Average People into Self-Made Millionaires Mar 11, 2016.

spend only the remaining money, middle-income people and low-income groups (in their mind the *poor*) spend their often single income “immediately after payday” for immediate consumption and immediate pleasure (or worse, for repaying last month’s loans) and no money is left for the creation of assets and financial reserves of any kind. Not in vain a folk saying says that something is “long like a week before payday”, and similarly fast loans with an astronomically high APR to cover just the period before the next paycheck are so popular.

The sad evidence of the aforementioned is the fact that, even in times of economic boom, low unemployment and rising incomes, the number of distrainment orders and debtors having problems to repay their financial obligations is continuing to increase.

In 2018, distrainment proceedings were conducted against 821,337 persons; as of 1 February 2019, the Czech Chamber of Distrainors registered a total of 4,679,186 distrainment orders (including latent distrainments)[6]. Details are well shown by the Distrainment Map project[7].



Proportion of people in distrainment (%)

About distrainment a large amount of data and various researches have been published—many of them available on the Internet. They reveal e.g. that approx. 16% of Czech people already experienced the seizure of assets. Over 821,000 people have their own experience with distrainment, as shown on the distrainment map mentioned above, but one must still add that approx. the same

[6] Czech Chamber of Distrainors: Statistical Sheet I., 2019. Source: http://www.statistiky.ekcr.cz/docs/statisticky-list-I.pdf
[7] Distrainment map. Source: http://mapaexekuci.cz/

number of people report having an experience with distrainment through their parents or their partner.[8] It should also be taken into account that distraint of the parents or other close family members negatively affects dependent household members, such as their underage children, which significantly increases the total percentage of our population which directly or indirectly experienced distrainment and its effects.[9]

A favorable economic development, high standard of living and a high number of distrainment orders—they are actually closely related in a certain sense. The common denominator in this case is consumption—and to a lesser extent, the necessity to buy things necessary for normal household life, e.g. for single mothers, but much more often excessive consumption of the masses aimed at the satisfaction of all sorts of (even the strangest) human needs, which are summed up under the term of "consumption".

Indeed, "a high standard of living" means for a significant number of people just an "illusion on credit"! People are willing to go into debt to buy material goods that they do not need from an objective point of view, but that *they want* for various reasons, or they subjectively think that they really *need.* Many are hoping that property will make up for the areas in which they are lacking, but eventually they find out that neither production nor economic growth ultimately lead to the ultimate satisfaction in any of them.[10]

From a global perspective, in addition to the final negative impact on the psyche of individuals, consumer behavior also has a significant negative impact on the quality of our environment. Natural resources are plundered, all kinds of squandering occurs (from food and clothing to electronics and cosmetics), excessive waste is generated (packaging materials, plastics and micro-plastic…), the parking lots of car manufacturers are full of used cars from operating leasing that nobody wants, because society got quickly used to new cars for "cheap" leasing etc.

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[8] Czech radio iRozhlas: 16 percent of Czechs admit that they had assets seized, says sociologist Mr. Prokop. This is shown by research data, 2019. Source: https://www.irozhlas.cz/zpravy-domov/exekuce-vzdelanostni-mobilita-vzdelani-prokop-tridy_1910080600_jab?latlng=49.82127350693801|15.480000000000018|6

[9] The authors of this text have met a six-year-old son of clients who whispered while drawing a picture "personal loan from Cetelem". What must he be hearing his parents talking about at home?

[10] Horňáková, Michaela: Various critical views on consumption and the consumer society, FFUP 2012, citing Mr. Keller.

3. Consumer society

Consumerism is defined by the well-known sociologist Mr. Jan Keller as “orientation on material goods, which pushes out non-material values seen as secondary values, excludes the possibility of being satisfied with the level of consumption of the previous generation and does not allow to cover needs entirely or at least mostly from local resources”[11]. According to the Great Sociological Dictionary, consumer society is a society in which “an ever-increasing consumption of material goods has become a dominant cultural value and the measure of social success”[12]. The illusion is created that consumption in its broadest form is normal and even desirable. This leads to uncontrolled consumption, plundering of natural resources and blatant waste.

The situation outlined above, namely the emphasis on consumption today, often in connection with the supposed attainment of a higher social status hand in hand with greater property and regardless of the effects of individual actions, is being described by a number of authors.

Already in his book The Idle Class Theory from 1899[13] Thorstein Veblen discusses demonstrative or spectacular consumption, the main purpose of which is to demonstrate property and high income of individuals in order to obtain or maintain a certain social status.

Leading Czech sociologist Miloslav Petrusek speaks of the consumer society as of a society of hedonism and consumption and the “prodigal or greedy society”.[14] “A greedy society (…) sees its purpose in the accumulation of property, whereby subjecting all moral and social norms, values and behavioral patterns to this.” (Petrusek, p. 106). However, most frequently movable assets are accumulated, which are losing their value over time again. Society becomes so-called “permissive”: Everything is allowed—the nation ceases to have control

[11] Keller, Jan: Abeceda prosperity (Alphabet of prosperity), Brno, Doplněk 2003, p. 48.
[12] Linhart, J., Petrusek, M., Vodáková, A., Maříková, H.: Velký sociologický slovník (The great sociological dictionary), Praha: Karolinum 1996., Horňáková, Michaela: Various critical views on consumption and the consumer society, FFUP 2012.
[13] Veblen, Thorstein: Teorie zahálčivé třídy, Slon 1999.
[14] Petrusek, Miloslav: Společnosti pozdní doby (Societies of the late age), Slon 2007.

over the evaluation of what is moral. This power is gradually taken over by the media (Petrusek, p. 235) and social networks. Consumption is the main driving force of the economy and so the media constantly keeps emphasizing it. In fact, over the long run, the government also benefits from high consumption through taxes.

Almost everywhere you see today that a large number of people seem to have enough money to live the “high life”: luxury vehicles of all kinds, frequent all-inclusive holidays abroad, the latest electronics, eating out, designer clothes, *own* family homes, luxury services etc.

On closer examination, however, it turns out that the *own* home was often bought on credit, the luxury car is leased, the holidays, state-of-the-art electronics, clothing and jewelry are paid from consumer loans, overdrafts or with a credit card. All this, in order to “fit” into a certain community of people where they would like to join in, even if they may not actually have the money.

Banks and lenders offer hundreds of available possibilities how to enable consumption immediately, advertising lures us to fulfil our needs and wishes without having to wait and this for “cheap”—“having a loan” is becoming “normal” and socially accepted behavior (see the section Social approval below). However, the result may also be becoming dependent on other people’s money. People have overdraft on their account: *in case some money is missing before payday;* a credit card: *after all, it is great to get 2% back from each purchase and then, we also have an interest-free time period*; when the washing machine breaks, we buy a new one “in installments”: *after all, there’s no down payment and no price increase*. “Living on other people’s money” is slowly becoming an accepted lifestyle. *After all, even the nation is running on a deficit, right?*

Everything may be working fine for some time, but as usual, suddenly something gets stuck. An accident at work, late payment for a work invoice, missing the interest-free period for the credit card, another consumer credit for paying back the overdue loan, late mortgage payment followed by problems with debtor registers (BRKI, NRKI, Solus etc.), stuck in the debt trap and debt spiral… At the end of the story, insolvency in the better case or distrainment in the worst case.

When a) low financial literacy, bad financial habits, a lack of financial backup and several credits are combined with b) the desire, want and the image that people “simply must have certain things”, especially when the “neighbor already has it”, and you add c) a desperate desire for a high social status and recognition, which is supposedly obtained by showing-off property (possibly a desire for many likes and hearts on social networks), and then you still spice it up with d) ubiquitous stress at the workplace and e) the inability to communicate effectively and express own opinions and feelings, it is obvious that this can easily lead to situations where one has difficulties paying their debts, moreover to the development of psychological problems, relationship problems, increased divorce and in extreme cases even crime or suicide.[15]

Distrainment as such has a negative impact on society as a whole. Indebted persons lose motivation to work legally, knowing that they will not increase their actual income by increasing their work effort (they will be just paying more of their obligations). If an individual falls into the debt trap, the results are less tax collection, a higher social support expenditure and increased crime and relapse.[16] In addition, surveys show that people who experienced distrainment often lose confidence in the rule of law, democracy, the judiciary and tend to be politically apathic.[17] In fact, it is not surprising that virtually no one is willing to communicate properly with people in debt and distrainment has become a “solid business” in our country over the years.

4. Social classes in the Czech Republic

Recently, Czech Radio published a booklet entitled Divided by freedom, Czech society 30 years after[18], where it examines in detail the position and security of people in today’s society. Theoretically, it is based on the British research the Great British Class Survey and the approach of French sociologist Pierre

[15] As an illustration one can mention the part Innocent lies of the television series called Second breath (https://www.ceskatelevize.cz/porady/10396559280-nevinne-lzi/21251212027-druhy-dech/) or the American television movie The Joneses: American Dream of 2009.

[16] Hábl, Radek: Czechs are getting out of the debt trap. The number of completed distrainment cases exceeds the number of new ones. 2019. Source: https://www.lidovky.cz/byznys/pravo-a-justice/cesi-se-dostavaji-z-dluhovych-pasti-pocet-skoncenych-exekuci-prevysuje-ty-zahajene.A190310_161626_ln_byznys_pravo_ssu

[17] Alarm: Distrainment, the guilty conscience of the Czech Republic, 2018. Source: https://a2larm.cz/2018/12/exekuce-cerne-svedomi-ceska/

[18] Czech radio iRozhlas: Divided by freedom, 2019. Source: https://www.irozhlas.cz/sites/default/files/documents/4cb643625998e931d8f0a9aa34bbb254.pdf

Bourdieu, who took the view that, in addition to income and property (collectively referred to as economic capital), the contacts and ties that people have in society (social capital) are crucial. The reason being that in the event of difficulties in our rapidly changing society, such contacts can guarantee them a solid situation and more potential to find a well-paid job. The third key factor, according to Bourdieu, is how much one shares the preferred cultural preferences in a given society (cultural capital).

Moreover, for the Czech environment, still other competencies decisive for success and advancement in our global society were taken into account: language skills and computer and digital skills, and in the social capital area it was also looked at how much an individual can receive support from their close surroundings in difficult life situations.

Based on a sophisticated statistical analysis of latent classes, the Czech society was divided into six classes according to different representation of economic, social and cultural capital, by which people are gaining their position in society.[19]

Typ	Třída	Složení kapitálů – co je pro ni typické	Jak je velká
Vyšší střední	Zajištěná střední třída	Vysoký příjem a majetek, ale jen mírně nadprůměrný sociální kapitál (kontakty, pomoc v okolí), kulturní kapitál a nové typy kompetencí (jazyky, počítače)	22,1 %
	Nastupující kosmopolitní třída	Vysoký či nadprůměrný příjem, ale omezený majetek. Vysoký sociální kapitál, kulturní kapitál a nové typy kompetencí	11,9 %
Nižší střední	Tradiční pracující třída	Nadprůměrný příjem a majetek, ale velmi nízký sociální, kulturní kapitál i nové typy kompetencí	14,4 %
	Třída místních vazeb	Nadprůměrný majetek a sociální kapitál (kontakty, pomoc v okolí), ale nižší příjmy a kulturní kapitál a nové typy kompetencí	11,8 %
	Ohrožená třída	Solidní sociální, kulturní i lidský kapitál (nové kompetence), ale velmi nízký majetek a příjmy	22,2 %
Nižší	Strádající třída	Velmi nízký příjem, majetek a zároveň malý sociální kapitál a nové typy kompetencí	17,6 %

Type	Class	The composition of capital: what is typical	How big is it
Higher middle class	Secured middle class	High income and property, but only slightly above-average social capital (contacts, help from the surroundings), cultural capital and new types of competencies (languages, computers)	22.1%
	Emerging cosmopolitan class	High or above-average income, but limited property. High social capital, cultural capital and new types of competencies	11.9%

[19] In British society, yet a seventh group was identified: the so-called elites, to which in our environment only 0.5-1% of the population belong. For this reason, we didn't give it attention as a separate group.

Lower middle class	Traditional working class	Above-average income and wealth, but very low social, cultural capital and new types of competencies	14.4%
	The local ties class	Above-average property and social capital (contacts, help from the surroundings), but lower income and cultural capital and new types of competencies	11.8%
	Endangered class	Solid social, cultural and human capital (new competencies), but very low property and income	22.2%
Lower class	Deprived class	Very low income, property and also low social capital and new types of competencies	17.6%

Two groups belong to the upper middle class: 1) a well-off middle class characterized by high income and great wealth, but at the same time quite significantly lacking new types of competencies (language, ICT); and 2) an emerging cosmopolitan class characterized by very high values for all types of capital, except for property that it has *not yet* built up. These two groups make up roughly one third of society.

Three groups belong to the lower middle class and make up approx. half of society: 3) the traditional working class (blue-collars), i.e. most often manual workers with solid wealth and income but limitations for the other types of capital, over 87% living in their own housing, in smaller towns and in the countryside; 4) the local ties class: mostly older rural inhabitants with their own housing and very strong social ties, and then the 5) endangered class.

The endangered class consists of people of all age groups, usually urban dwellers with rather average education (mostly secondary school education with or without GCSE), often in administrative positions and as ordinary employees in services, 62% are women. Members of this class have only average knowledge of languages and ICT, they are lacking specific knowledge and competencies, and therefore, even their formally sufficient education does not allow them to obtain a more qualified and better paid position. Above average is only their social capital. This class is characterized by rental housing (38%). For comparison, the average for the whole country is "only" at 22%.

The overall threat to members of this class stems primarily from the fact that a large part of it consists of families with children, i.e. mothers on parental leave. When a woman with young children returns to work, complications may arise (the employer is aware that children can often be ill and the woman will be forced to stay at home with them). Another risk factor is that although this group has very good potential to increase both income and property, it was not able to capitalize on the economic growth of recent years and build up reserves, it does not benefit from globalization or from digital technologies, and it is highly probable that it will not be able to discern the new arising trends. Distrainment, loss of employment and long-term unemployment are relatively frequent in this group.

The last group is the so-called 6) deprived class, which lacks de facto all types of capital: income, property, social contacts and also new types of competencies and human capital, which makes the members of this class extremely limited for improving their situation. These usually include elderly people with very low education, working in non-specialized and auxiliary positions and living in regions with a low standard of living: the regions Ústí, Karlovy Vary and Moravia-Silesia. 60% are women and 41% are living in rented housing. Unemployment in this class exceeds 6% (which is the highest of all classes), and distrainment is also very common. The deprived class comprises about one sixth of our society.

If we look more closely at the relative representation of the last two groups in our society, we see an alarming finding that every third Czech person today is actually threatened because of potential financial complications or even the poverty trap.

However, to draw conclusions solely on the basis of general statistical data would be considerably simplified. According to the experience of the authors of this study, risky behavior leading to more uncontrolled consumption rather than consciously building assets can be found more and more now also in the high-income groups, including university graduates, doctors, scientists and specialists and managers with high positions in multinational corporations (although to a much lesser degree). Even they do occasionally fall for a desire for some modern technology “novelty”, which they actually can’t afford, and they also sometimes become penalized because their parents taught them the wrong patterns of financial behavior.

5. Where’s the problem?

5.1 Low financial literacy

Most of the problems described above are still largely due to very low levels of financial literacy in our country. A survey by the Czech Banking Association (ČBA) showed that the financial literacy index was 54 points in 2016 and 55 points out of 100 in 2017. Helena Brychová, the ČBA Financial Education Manager, commented on the outcome as follows: "Our understanding has not improved much in the long term. This is often because we have created a negative notion of the world of finance. Money often means to us only numbers and a lot of definitions. One of the reasons may be that we are saturated with specialist information that we do not understand."[20] The value of the index is increasing only slowly, lately by one point each year. In 2019 we are at 57.[21] The situation is worst for people with basic education or persons with vocational training (under 50 points), secondary school graduates reach approx. 58 points and university graduates are better off (66 points).

Millward Brown's long-term survey for the bank Česká spořitelna on a sample of thousand persons has revealed that besides education, the level of family income has great influence on the level of financial literacy. "People in households with incomes in excess of 40,000 CZK a month show almost double the level of financial literacy than those in households with incomes below 15,000 CZK a month."[22] People in Prague, in the South Moravian region and in Central Bohemia are best off.

The below-average level of financial literacy of Czechs was also found by an OECD research, according to which the Czech Republic ranks on place 20 out of a total of 30 countries.[23] It turns out that Czech people are not able to think efficiently in financial terms, most of them have no financial plan, and a large number of them have actually no idea how much money they spend each month and for what.

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[20] Diary: Czech people are in trouble with financial literacy, 2017. Source: https://www.denik.cz/ekonomika/cesi-maji-potiz-s-financni-gramotnosti-20170329.html

[21] E15: Survey: The financial literacy of Czechs is still only average, 2019. Source: https://www.e15.cz/finexpert/bydlime/pruzkum-financni-gramotnost-cechu-je-stale-jen-prumerna-1362463

[22] Diary: Survey: The most financially literate are the people in Prague, 2016. Source: https://www.denik.cz/ekonomika/pruzkum-nejvice-financne-gramotni-jsou-lide-v-praze-20161201.html

[23] Epale: Financial literacy is poor, another survey showed, 2019. Source: https://epale.ec.europa.eu/cs/content/financni-gramotnost-je-spatna-ukazal-dalsi-pruzkum

Financial planning is sometimes seen (especially among older citizens) as something slightly negative, useless, profane, comical and utopian. These people are convinced that, based on their experience, they are able to make the best decisions on their own, and they are citing the famous passage from the 1987 film How Poets Enjoy Life, where teacher Hajek says: "*I have made a flow chart. One thing follows the other. Random occurrences are impossible or are foreseen. If the rise in prices is as steady as now, we will buy our first car in... one second... in five and three quarters of a year. The starting point is, of course, the wedding. And then follow only positives and social safety. Our first vacation in Yugoslavia, followed by our first child, then the aforementioned car, here I become deputy director, our second vacation in Yugoslavia, our second child. In between, of course, a holiday cottage, as well as a color TV, a car trailer, and so on, and so on, and so on for ten years on." Štěpán: "You are very progressive, Comecon is using five-year plans, but you are already running on a ten-year plan!" Hájek: "With a salary of 2223 Czechoslovak Crowns and 50 Hellers gross I actually see no other option!"*

Luckily, for younger, more educated generations, financial planning is no longer such an unrealistic concept, and to consult financial goals with experts in banks, building societies or with financial advisors is slowly but surely becoming the standard.

One of the reasons is undoubtedly also the fact that since 2007 the issues of finance and financial literacy have been given constant attention in teaching at primary and secondary schools. The standards for financial literacy of primary and secondary school pupils set by the Ministry of Finance are presented on its website. The updated version of 2017 places greater emphasis on non-cash payments, personal data protection, critical assessment of services and goods, budgeting and the asset/liability comparison, interest, the financial product comparison, short-term and long-term planning and the risks of achieving goals, security in old age, origins and risks of loans and the consequences of default and debt and debt management. [24]

[24] Czech Ministry of Finance: Financial literacy standards, 2017. Source: https://www.mfcr.cz/cs/aktualne/aktuality/2017/standard-financni-gramotnosti-29163

Also, the Czech National Bank is trying to educate the public. On its website, it is pledging to teach people how to control money and assign to each Czech Crown its place in the budget.[25]

Efforts to instill correct financial principles already in children, pupils and students could help the financial situation of Czech families in the future and lower their indebtedness significantly. In particular, continuous repetition is needed—as it is the case with all skills that people are learning consciously. School is a good place for repeating and blending financial topics with other subjects ("learning and living"). Pupils and students can solve thematic verbal problems in mathematics, read specialized articles in language education and learn to use context thinking in economics etc. It is gratifying to see how pupils remember the knowledge they gained in financial courses—many times they even tell it to their parents.

The choice of a teacher for such courses can be a risk: among teachers themselves, the level of financial literacy tends to be quite low, and so they acquaint their students only with theoretical knowledge. It is very opportune to establish in this area external cooperation with banks, insurance companies and consulting companies. On the other hand, it is important to ensure that external trainers really educate the students and not just look for "an easy way to sell their services".

Adult financial literacy courses have much worse results! It seems that the main reason is their "randomness".[26] If financial know-how is not "repeated and lived", participants will forget almost everything very quickly. The authors of this text have taken part in a European Union project on the financial education of persons from employment offices, including those after a prison term, and can confirm that the results and impacts of these courses were absolutely minimal. The participants did not have the slightest interest in learning anything new, let alone to use the acquired knowledge to their advantage.

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[25] ČNB: Money on the run. Source: https://www.penizenauteku.cz/

[26] Hovorková, Kateřina: Five weeks later they know nothing. Financial literacy courses don't work, people keep indebting themselves, 2019. Source: https://zpravy.aktualne.cz/finance/problem-s-financni-gramotnosti-za-pet-tydnu-si-nic-nepamatuj/r~fe19b80a8e7e11e9be22ac1f6b220ee8/

Including financial issues in children's books could be very effective. A successful example is Sean Covey's book 7 Habits of Happy Children[27]. Through characters of animals and their stories, children learn that it is necessary to plan first, then earn the money and only then it is possible to fulfil one's wishes. If we don't follow this process, the money will be squandered. Like this, even preschool children can learn functional patterns of financial behavior in a non-violent form through books.

However we support financial literacy, we must always keep in mind that there will still be people, who tend to copy the majority and try to gain a (supposedly) higher social status and recognition through high-value items. Unfortunately, even an iPhone for 40,000.- CZK bought on credit counts. You don't see the credit at first sight, but the new phone you see!

It is not uncommon to find the notion that a Prague city teenager (specifically a thirteen year old soccer player) "just needs" a phone for 25,000.- CZK (and every year a new one, because he manages to break it within a year) because *"everyone in his class/club has a phone like this"*. He can't be the *weird* kid that is *satisfied* with a phone for 4000.-.

Over-indebtedness is one of the manifestations of the so-called late age society, as described by Mr. Petrusek. Over time, credit has become a highly available instrument for "obtaining" and "manifesting" a higher standard of living and, what is worse, it became a social norm in some sense. It is common to have housing on credit, to travel, purchase electronics, white goods, designer clothing and expensive Christmas gifts on credit. Everything on credit! But how does it work out, when the iPhone becomes obsolete in one year, the children outgrow their clothes, the next summer comes, the next holiday, another Christmas?

In fact, we are becoming slaves of our notion of how others perceive us and what is *normal*. The conservative rabbi Elliot N. Dorff, a professor at the American Jewish University in California, summed up the situation very aptly: "Our standard of living stems from spending money that we haven't earned yet for things we don't need to impress people we hate."

Is this really the right way?

[27] Covey, Sean: 7 Habits of Happy Children, FC Czech 2009.

What is alarming is that there are people who, after finishing paying off their bankruptcy, automatically think that right the next month after sending their last installment, they can go back to the bank and re-apply for a home loan. As if bankruptcy was a standard consumer loan. They are very surprised to find that no bank will lend them money to modernize the roof of their house for several more years.

However, to finish this subchapter, it should be emphasized that just the knowledge about how finances are working cannot solve all the financial problems of our society.

Many problems connected to over-indebtedness stem probably from the fact that people have actually no idea what they are doing wrong. It seems to be a *habit* that is passed on and inherited from generation to generation.

T. Harv Eker comes to the same conclusion in his book How Millionaires Think.[28] He is contemplating questions like, "Why are some people rich and others poor?", "Why is everybody using their money in a different way, and especially regards financial behavior differently?" or "Why does everyone earn different amounts of money—someone profits on everything they touch, and another will always just be scraping along?". He argues that patterns of financial behavior are instilled in our subconscious as early as in childhood and they predetermine our way of dealing with money throughout our life. If we want to change our "financial destiny", we need to become conscious of our established ways of viewing money and property, we need to distinguish between those that serve us and those that cause us difficulties, and then we have to consciously work on changing the bad patterns. According to Eker, it is not surprising that we will not have money unless our mind contains notions how to effectively earn and retain money.

It seems that our family has effect on our attitude towards money and property; our surroundings affect the level of our income. John Williams offers in his book How to Do What You Love and Get Paid for It an interesting notion: "Add up the incomes of the five people that you spend the most time with. Then divide the result by five to get the average. It is typical that your income will be quite close

[28] Eker, T. Harv: Jak myslí milionáři (Secrets of the Millionaire Mind), Práh 2006.

to this amount." (p. 189).[29] So if we want to improve our income, we must actually change the social group that we belong to.

5.2 Households with little financial reserves

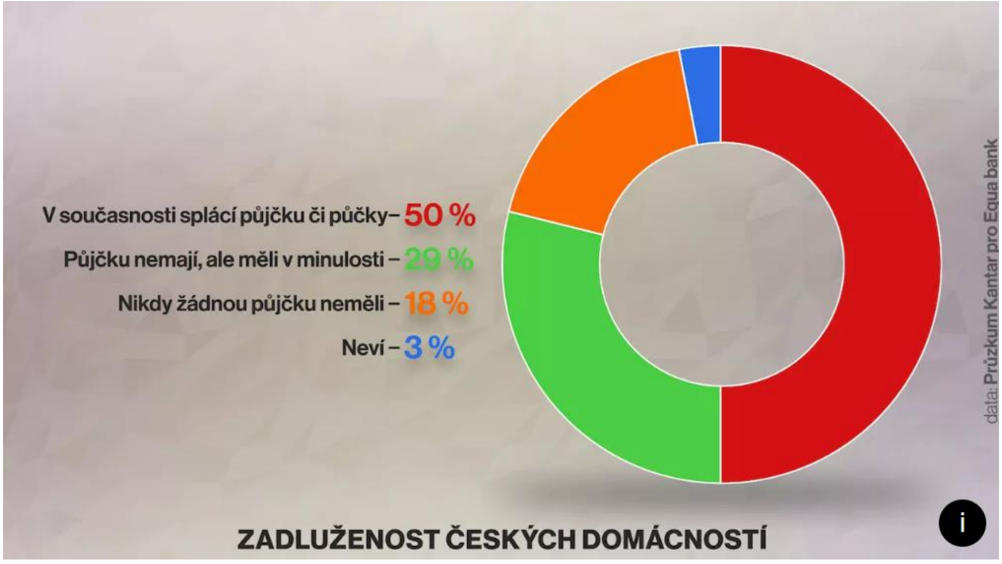
Another factor causing financial problems for households is the limited amount of savings and contingency reserves and the lack of habitual reserves creation.

According to a survey (Kantar agency for Equa bank), only two thirds of Czech people are managing to live comfortably with their income and are regularly saving every month. Thirty-one percent of households can make their ends meet but do not save anything. And for three percent of households the money earned is not even enough for regular life, and on and off they are forced to go into their reserves or to borrow money.[30]

The same research also confirms that one fifth of Czechs have no financial reserves at all, one quarter has some reserves of about one salary, and another fifth has financial reserves of two to three monthly incomes. Altogether, a striking 65% of Czech households cannot last more than 3 months with their financial buffer in case of money problems. According to experts, the minimum recommended contingency reserves should be at least six times the monthly expenses.

According to SC&C's annual representative survey, the situation in 2019 was as follows:[31]

[29] Williams, John: Jak dělat, co vás baví, a dostat za to zaplaceno (How to Do What You Love and Get Paid for It), Grada 2012.
[30] Novinky news server: One third of households are spending it all, can't save nothing, 2019. Source: https://www.novinky.cz/finance/clanek/tretina-domacnosti-zije-nadoraz-nic-neusetri-40299661?dop-ab-variant=18&seq-no=3&source=hp
[31] Novinky news server: Czech people do some saving, but they cannot last long in case of loss of income, 2019. Source: https://www.novinky.cz/finance/clanek/cesi-sice-spori-ale-z-nasetrenych-penez-pri-vypadku-prijmu-dlouho-nevydrzi-40298002



INDEBTEDNESS OF CZECH HOUSEHOLDS: 50% Currently paying off at least one loan, 29% Has no loan, but had in the past, 18% Never had a loan, 3% Doesn't know

Housewives with children under 14 are most vulnerable. Those actually trying to save money do most often save an amount of 1,000 to 2,500 CZK as reserves primarily in case of unexpected life events.[32]

If we do not learn the habit of living on our own money, not to buy unnecessary things and buying only what we can afford, we are asking for trouble! Health complications (even minor ones), changing jobs, the car breaking down, a broken dishwasher, a school trip for the kids: all this becomes a problem for people without financial reserves.

And it even gets worse with old age. One day we stop to work actively (voluntarily or involuntarily) and our income is likely to decrease. Especially if we rely purely on the government. Nowadays, the national pension represents about 40% of the average wage, and in the future it will be more something like 25%. What will we do then? Having the habit of living a high life, spending all we have and without any savings? Let's be honest, three hundred Czech Crowns put aside every month for pension savings will not save us!

[32] E15: Survey: The financial literacy of Czechs is still only average, 2019. Source: https://www.e15.cz/finexpert/bydlime/pruzkum-financni-gramotnost-cechu-je-stale-jen-prumerna-1362463

5.3 Speculative investment

The authors of this text subjectively noticed a remarkable phenomenon of risky financial behavior in people aged 25-40 years, who earn around 70,000 CZK to 120,000 CZK gross per month. In this group of people, we rather often find the desire for speculative investment: they feel that they can easily "earn" money on one-off deals with a questionable background. It is the more surprising, because we did basically not find such behavior for incomes of around 30,000 CZK to 40,000 CZK and also for incomes of over 150,000 CZK a month.

We are seeing speculative purchasing of land, flats or other real estate and their subsequent quick resale. ("*Five years ago, I bought a piece of land for 5 million, today it is worth 10. Why should I invest in funds with a yield of 7% when I can earn money like this?"* Or "*We'll buy this apartment for 7 million with friends, we'll renovate it, the rent will pay us the mortgage, and when it's the right time, we'll sell it again. I expect to make a million in two years like this.*")

A considerable number of people are speculating by purchasing cryptocurrency like Bitcoins, or the try to gain money by buying diamonds, gold or other precious metals, or they trade in Forex or "dabble" with securities, or they invest in specialized niche funds like water, zinc etc. (*"It is clear that water resources are running out, water will become more expensive due to prolonged droughts, I will profit on it!"*). Some have their trades backed up by formal education and a truly careful analysis of the available data, but many have "only" been lucky and were successful with one or two trades, and they expect that this will keep going on like this forever.

Stocks have been very successful in the last 10 years, and cryptocurrencies also in the last few years. However, the question is, how much is this group of people prepared for a potential decline in value of their investments by tens of percent, for tenants who damage their investment flat (floor, kitchen, equipment), for the eventuality that the company whose bonds they own simply closes shop "and doesn't satisfy their creditors" or for the event that they just get scammed?

Nowadays, there are always investment opportunities popping up in bonds of companies with a dubious credit; they *guarantee* a performance of perhaps 8% per year, but they cannot answer the question: "Who guarantees this to you?", or the opportunity of just "sending 100,000 Crowns somewhere" with the money increasing for example by 40% within a week. There are job offers in Saudi Arabia, but in order to get this job, the candidate must first send 10,000 EUR and then still 15,000 EUR to a Spanish bank account and then collect his package of documents and exchanged money at an embassy in Vienna. Just to finally discover that in Vienna nobody knows nothing about such a story.

A whole slew of social network ads want to lure you into a high income job from home with a minimum of effort, showing you examples of people who have already become rich, bought a home in an exotic location and are enjoying their lives in abundance.

There are special leasing companies where you can send money to buy a new car (easily even a few million worth), you pay surprisingly low “rent” for this car (e.g. 500.- CZK per month), and finally you are supposed to recover your money after a year or two—even slightly valorized. We wonder how such companies can make earnings that will cover operations, pay off the rented luxury cars and still bring value to the customer? Such stories point to speculative enterprises that have become infamous under the term “Ponzi scheme”. For a few years this system can work (as new money continues to flow in from new clients with which the older clients are satisfied), but one nice day, or rather dreadful day, it all gets stuck and many victims are left to cry.

We have also noticed companies offering loans from private investors to clients in serious financial problems, which cannot get a loan from a bank or even a non-banking institution. At the first meeting, the client is informed that he first has to take out an investment life insurance with a premium of 1,000 CZK per month for the case that he should die, in order to protect the investor’s money. Then the credit company promises to look for a private investor who will provide to the borrower the agreed sum of money at a reasonable interest rate. Upon closer look at the contract (preferably at home) it becomes apparent that the client signed a cooperation contract and would have to pay a penalty of 25,000 CZK for his withdrawal within two years. The credit company will seek a private investor for a maximum of one month. But if they don’t find one by then, “it’s just too bad for the client”. As a result, the client did not gain any money from a private investor and, in addition to all of his obligations that he wanted to solve, he still ends up with an insurance policy that costs him 1,000 CZK every month and that he cannot cancel before two years, lest he pays a penalty of 25,000 CZK.

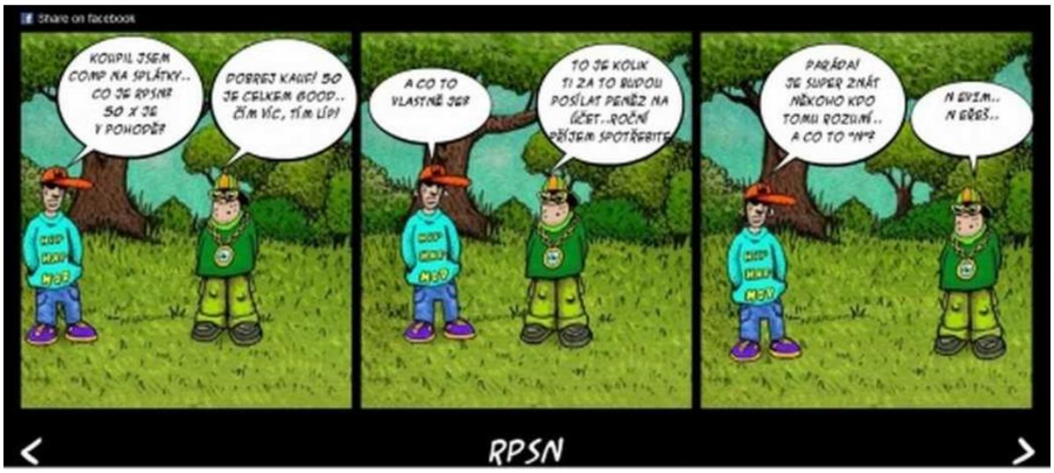
With a little bit higher financial literacy one should be able to understand the risk behind such offers by companies with dubious or even unfair practices: like the temptation of 30% per annum interest on a savings account from a “Swiss bank”, when standard Czech savings accounts offer only 2%—this is obviously suspicious even for a *Swiss* bank. The same goes for coupon yields of bonds of unknown companies promising 10-20% appreciation. For example, the pressure to take out a life insurance right at the first meeting or the requirement to send a large sum to an unknown account are not exactly *client-friendly*, and an experienced adult should immediately become suspicious.

In any case, speculation and speculative investment can get people easily in trouble! Particularly risky is to borrow money from relatives and friends for one’s “100% profitable deals”, and thus drag them also onto the loosing merry-go-round. Time will tell if the speculators are ready to shrug off their losses and if they have obeyed the basic rule of wealth generation and have diversified the sources of their future income.

5.4 The tricks of credit companies

One of the problems is the easy availability of loans and, to some extent, also the distorted information that consumers receive from credit companies. Their financial illiteracy and, to a large extent, also their distress is exploited.

In addition to the above-mentioned example with the life insurance policy, there is also the practice of “hiding” the APR. Lenders emphasize the interest rate and the APR is only mentioned in the end of the contract. They profit from the fact that many consumers do not even know the APR parameter and do not pay attention to it. This issue is pointed out in the materials used in connection with the Financial Literacy Day project, which is sponsored by Partners Financial Services a.s.



APRC

- I bought a new PC on installments… What is APRC, 50x36, it's OK? *- Good buy! 50 is cool… The more the better!*	*- And what is it?* *- That's how much money they will send to your account: Annual Play Rent.*	*- Great! It's good to know someone who knows this stuff… And what's the C?* *- Can't think of it… Care not…*

A common practice for lenders is to indicate the interest rate in a format other than the annual one (p.a.), i.e. p.s. (half-yearly), p.q. (quarterly), p.m. (monthly), p.d. (daily) etc. as base for the interest calculation. An interest rate of 1% p.d. looks better than 365% p.a., right?

Some companies will grant the first loan for "free" to a new borrower. They want to give him a "taste" of how easily he can solve his situation, and they hope that he will eventually create a habit.

Paying with a credit card is often rewarded by returning part of the money spent, and the consumer gets the idea that the more he spends, the more he gains. However, if he stumbles and cannot repay his debt on time, interest starts running from the first day of the interest-free time period.

Often, we also find various gifts that consumers receive with their credit: seat bags, toys, tablets etc. It is similar to a casino serving drinks for free to its customers. Players feel good in the casino and debtors feel good with money in their pocket. "Who cares about tomorrow!"

Still rougher practices include e.g. companies that provide debt relief under relatively favorable conditions, but in exchange for mortgaging one's real estate. The contracts, however, are set up in such a way that often a single late payment can mean that the borrower loses his property.

6. The phenomenon of over-indebting in terms of psychology and social psychology

6.1 Purchase manipulation techniques

Through scientific methods social psychology attempts to understand and explain how human thinking, feeling and behavior are influenced by the actual, imagined or presumed presence of others. In the following part of this study, we will try to explain, using psychology, how it is possible for so many sensible and educated people to make irrational financial decisions: they buy overpriced things that they don't need, they borrow money for holidays, electronics and cars, they pay high interest on credit cards, they use high interest overdraft, but when they finally want to take a "decent credit" and get that own apartment, they find that they are far from having saved the necessary 20% of their own resources.

The answer is actually quite simple: An advanced level of psychological research, quality marketing tailored to our thinking, manipulation and the desire to sell, and laziness and the desire for recognition from others. Marketing specialists know very well how to manipulate us to buy what we don't need yet feel great about the bargain that we made. (And engineers have mastered the art of making products that last exactly for the warranty period, making us buy a new one after again.) Advertising is attacking us from all sides, we are getting convinced about what all we need for a happy life, until we finally succumb.

Used is the effect of exposure, where we just need to have this thing for long enough in our sight to finally "understand that we urgently need it"; the impression is created that these goods are in "high demand", and thus we must hurry with the purchase, that they are "on sale" only for a limited time period or are scarce or that "it is normal to have them and that everyone else already has them or is doing it"[33].

Dan Ariely, acclaimed psychologist and behavioral economics guru described and proved the successful manipulation technique called the bait effect

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[33] Klesla, Jan. Human psychology is as complex a system as the weather. 2017. Source: http://ceskapozice.lidovky.cz/tema/lidska-psychologie-je-podobne-slozity-system-jako-pocasi.A170110_233606_pozice-tema_lube

in his book dealing with the price of free things[34]. According to Ariely, when the comparison criteria are cleverly set up, the human brain can even defend an overpriced and ultimately not needed version of the desired product, goods or service.

Ariely's experiment[35] was dealing with the sale of popcorn. When customers were supposed to choose between a small popcorn for $ 3 or a big popcorn for $ 7, most of them chose the small one, because they felt that the big one was overpriced. However, when a medium choice for $ 6.50 was added to the offer, the consumer's attention turned like magic to the big popcorn. Its purchase suddenly seemed very advantageous compared to the medium (the reference) portion. After all, one must profit from a bargain!

Buying "on discount", "on promotion", "for points" or "by collecting points" is becoming another phenomena of our times, and it often seems that Czech buyers almost buy nothing anymore without a discount these days.[36] However, consumers are less likely to be wondering what the price of the goods or services was actually before the discount.[37] There were experiments done, where goods were placed on a prominent place in a department store without a discount and customers basically ignored them, until the moment when a *discount* tag was placed there (and even a higher price than the original one). Then the goods were relatively quickly bought up.

Simple manipulation techniques are the secret for successful sales, and represent also a danger for the consumer. The notion that people are easily able to calculate costs and compare them with the utility of something and that they make rational choices in spending money is just wrong.

The same conclusion is reached when observing some debtors, who often do not even multiply the amount of the monthly installment by the number of installments to find out how much they actually overpay on the loan. (Nowadays,

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[34] Ariely, Dan: Jak drahé je zdarma (Predictably Irrational: The Hidden Forces That Shape Our Decisions), Práh 2009.

[35] The Decoy Effect, Source: https://www.youtube.com/watch?v=33aaQdtD20k

[36] No discount no buy. Czechs are buying half of their goods on discount, e.g. domestic rum. 2018. Source: https://www.idnes.cz/ekonomika/domaci/akce-obchody-trzby-letaky-rum.A180321_220728_ekonomika_amu

[37] Svoboda, Jakub. Czechs buy more on discount, but get ripped off often, 2016. Source: https://www.novinky.cz/finance/clanek/cesi-nakupuji-vice-podle-slev-casto-se-ale-spali-347756

the credit documentation must include this information, so you just need to look it up—and some will still not do it.)

The Italian social psychologist Robert Cialdini described experiments proving that it is relatively simple to increase our spending e.g. in restaurants, by using numerical or price anchors.[38] People spend more money on dinner at a restaurant called Studio 99 rather than Studio 17; when buying Belgian chocolate, they are apt to spend more when asked to write down a higher number etc.

The need to divide the level of human decision-making into rational and emotional is also mentioned by the Italian economist and sociologist Vilfredo Pareto in his theory of residues and derivatives.[39] Residues, in Pareto's concept, are what remains in our mind, when we subtract the logical component, i.e. these are the real internal motives of our actions (emotional decisions). Derivatives then represent the rational justification—the justification of our previously made emotional decisions. It seems that the decision-making process takes place like this: our brain subconsciously makes a choice and then it begins to look for ways how to rationalize its inner decision.

We often encounter the phenomenon of rationalization and justification of irrational decisions among debtors. "*I absolutely needed that seaside vacation so that I could continue to work efficiently…*" (even though I bought it on credit and although I could have relaxed equally well at a significantly cheaper destination). "*We wanted to show the sea to the children. After all, I work hard all year, so I deserve it.*" It is similar for people who cannot create financial reserves. "*I live now, I want to enjoy now!", "I will anyway not live until my pension, so it's useless."* And when we question these types of borrowers in depth, they are able to come up with more and more (unbelievable and bizarre) reasons to justify their decision and make us understand that it was the best possible and only right decision.

Our subconsciousness is also used by the decision-making method of Ivo Toman from his book Cleaning our head[40], which he calls "throwing a coin". If we have the dilemma of having to decide between two options, e.g. between two holiday destinations, we assign head to one and tails to the other and throw the coin. It is then essential to observe our inner feelings as the coin falls. Do we feel

[38] Cialdini, Robert B.: Pre-convincing, Jan Melvil Publishing 2016.
[39] Vilfredo Pareto, Source: https://cs.wikipedia.org/wiki/Vilfredo_Pareto
[40] Toman, Ivo: Cleaning our head, TAXUS International 2009.

“relieved” or do “we want to cheat and throw again”? If we feel relieved, we know that internally we want to go to the destination as the coin decided. If we want to cheat, throwing the coin has helped us to realize that we want to go to the other destination. And then we just have to listen to our inner voice.

6.2 Money versus payment

In today’s technically advanced times, payment itself is a risk factor in terms of the origin of debts and the conscious control of our spending.

It is incredibly easy to pay for goods and services in a flash with a “magic piece of plastic” called a credit or debit card, a pay sticker or a fashionable bracelet, or a quick on-line payment when shopping online. Deferred consumption becomes immediate consumption, even when our bank account is empty or seriously in minus. Your satisfaction is number one, dear client, do not worry! Just keep shopping, we’ll take care of your finances for you.

So, in the comfort of your own living room, you browse the Internet, you’re not looking for anything in particular, but slowly but surely you are lured and attracted to a certain kind of goods and finally become the prey of manipulative psychological techniques to stimulate your shopping desires. After a while, one discovers, or rather does not even discover, that one is unconsciously choosing, because one’s brain has already decided that we want to buy, and soon we click on another “magic” button: “Order”, and we pay *somehow*. The next day, the post or a delivery service brings us a neat package.

Remarkably, the feeling of satisfaction from such a “snap” purchase is finally very similar to the feeling when the consumer “just places the product into the online shopping basket” but does not order it. The package with the thing that *we don’t really need* is usually just put somewhere and the product is forgotten. Likewise, the desire for the given thing dissipates after two or three days, even if the goods “only remain in the basket” and are not ordered. However, the second option is financially significantly more advantageous for us...

Non-cash payment methods are “user-friendly” and extremely interesting for merchants. They are thought to be effective mainly because of their speed. Behavioral psychology believes that our brain isn’t even able to recognize such a quick payment. When you have to pull out your wallet, look for coins or banknotes, hand them to the salesman, get back the change, put money back into the wallet and put the wallet back in your purse or pocket, your brain is surely recognizing the act of payment. However, according to behavioral psychologists, a quick beep may not be recognized. This strategy is successful: the buyer is permitted to forget for a moment how many hours, days or even weeks he has to spend at work in exchange for this newly acquired thing or service.

Dan Ariely compares in his book Dollars and Sense[41] the cashless payment process to playing in the casino. Right after entering the casino, the guest has to exchange his money for playing chips. The decisive factor is that the human brain is not used to assigning financial value to colored pieces of plastic. When betting pieces of plastic, the player is basically unaware of the value that he is risking to total coincidence and the skills of the casino dealer and how high is the likelihood to lose *real money*. Losing a green piece of plastic doesn't hurt as much as losing a banknote whose value is evident.

6.3 Herd behavior

Herd behavior may also pose a risk to consumers. Several socio-psychological experiments have shown that up to 2/3 of the population tend to behave like a herd: copying what the others do.

In the area of finance, herd behavior is manifested e.g. by planning or not planning, saving or not saving, indebting myself or not indebting myself—according to the prevailing behavior in our surroundings.

The main risk is that today's society not only tolerates the purchase of goods and services on credit, but basically accepts this behavior as positive, whereby life on credit is becoming sort of a distorted social norm. It is now *natural* to have housing on a mortgage loan, it is *normal* to have and use an overdraft account and a credit card, it is *common* to purchase household equipment in installments. It has also become a standard to have a car on operating leasing.

Mr. Cialdini speaks of social approval or the principle of social consent as one of the six main influential effects that determine our behavior.[42] He describes

[41] Ariely, Dan: Peníze a zdravý selský rozum (Dollars and Sense), Práh 2019.
[42] Cialdini, Robert B., Zbraně vlivu (The weapons of influence), Jan Melvil Publishing 2011.

how easy it is to influence an individual's behavior by simply mentioning how the majority has behaved in a certain case: 9 out of 10 customers recommend, the e-shop has been verified by customers, this product received a rating of 4.9 out of 5! Simple and effective!

Another effective technique is the direct involvement of people in the lending process: and not only as debtors but also as lenders, e.g. when people are lending to other people by way of a credit company. When we become part of the game, we are enjoying it even more. If we have the opportunity to practice our newly acquired skills, we retain much more—and in the case of loans, we get used to loans much faster this way.

Everything is underlined by the idyllic harmonious world of advertising, catchy tunes of advertising jingles, cute characters reinforcing brand awareness of banks and non-bank lenders and strong slogans promising security, support and partnership. One could say that well-made advertising directly generates the acceptance of lending to a great extent—unfortunately so.

7. How do experts see it?

In the course of the text so far, we have mainly presented our own views and have illustrated them on examples of professional research and specialist publications. In the following part, we will give space to the views of experts who are dealing with our issues on a daily basis in their professional lives and thus they can add valuable knowledge based on their experience.

The following experts answered our questions and granted us professional consultation:

- RNDr. Josef Uchytil, DiS., EFP: Director of Partners Market in Turnov, mathematician, politician, musician and financial advisor with experience in the field for 14 years
- Mr. Tomáš Hummel: Director at Partners Financial Services a.s., 19 years of experience

- Ms. Romana Vášová, EFA: financial literacy lecturer, financial advisor with experience in the field for 14 years
- Ing. Jaroslav Gall, Ph.D., EFA: financial advisor with 10 years of experience
- Ing. Luděk Švarc, EFA: financial advisor with 11 years of experience

All interviewees were asked the following main questions (and the interview usually still generated additional issues):

1) What do you think are the main causes of property differences in society (except for different levels of income)? Why are there such property differences among people?
2) How do people most likely get caught in a debt trap?
3) What factors do you think prevent them from escaping the poverty trap?
4) How to minimize poverty?
5) What would you propose to prevent people from becoming over-indebted and to stop over-indebtedness?
6) What do you think are the most common mistakes people make when managing their money?
7) In the Czech Republic, we have almost 900,000 people in distrainment. Do you perceive it as sensible to cancel their debts (by the government) or is this nonsense?

In the following, we will analyze each point and present the conclusions that were reached.

7.1 The causes of property differences through the eyes of experts

Mr. Josef Uchytil sees the causes of property differences as a mosaic composed of many fragments. First of all, it is low financial literacy. As an example, he mentions that people often use their credit card as a financial reserves instrument; it is not uncommon to take out a loan for Christmas gifts. According to Mr. Uchytil, people are convinced that investments are dangerous, they prefer to have housing on rent rather than to owe money etc. The second key factor are the behavior patterns passed down in the family and how we are programed: *"Our family was always poor... half a loaf is better than no bread... I will save my way to wealth..."* We are also shaped by our surroundings *"What I have I hold".* Very often people do not think in context and make snap decisions: "*I mainly need to insure the children and have this specific product."*—they easily ignore the parameters and settings. They make decisions emotionally (a fancy car, holidays that they can't afford, the inability to make savings), and they tend to ignore the level of risk looming (bitcoins, forex etc.).

Mr. Tomáš Hummel perceives the reason for property differences in the attitude towards developing myself, willingness or laziness to change or to learn something new and thus increase one's value, and also the measure of readiness to take risks and start a business and the ability of setting long-term goals. In our society we generally assume that people start working straight after school, they do their job quietly and they try not to stand out particularly. Entrepreneurs are considered in Hummel's words as *rascals* that should share their income with others. Property differences are also affected by the fact that people want to live their lives according to social networks and are willing to spend money to fit in in society. Young people have never experienced hard times in their lives and so they spend money on unnecessary things. People are not able to save money for significant expenditures and they don't "see beyond some three years" in their lives. We follow the motto: "It will pan out somehow." Marketing and advertising are very skilled in attacking people's wallets.

Ms. Romana Vášová considers property differences among people to be natural and to some extent desirable. She talks about the historic, political and also socio-psychological context. "Property differences among people have always existed and nobody found it strange. In a way, it was relieving for those people, because they belonged to a certain social group that did some work and got adequate pay for it. Everything was erased by socialism, which gave everything to everyone, and suddenly all had the same level of possessions. Only someone who was in the Communist party could get some advantages. Again, he was part of a certain social group. And the ones who had no connections, had nothing at all. It was simple. Problems came with the revolution, when all possibilities opened up for everyone. People who would normally by their knowledge and occupation be in a lower social group, suddenly got access to resources typical for higher ranking social groups—at least they got this impression. And people began to indebt themselves. "*When the neighbor has a nice car, then I can have it too!"* The fact that one earned and saved the money for it and the other one bought it on credit was not taken into account. And so, people are pretending that they are better off. However, most of those who indebt themselves indiscriminately are not better off in the intellectual sphere. It does not matter if they have or do not have an academic degree, this is secondary: a person who only attended primary school can live as some renowned engineer. The intellectual level in our context is meant as a synonym for "common sense", which says that *"when I don't have the money, I just don't buy it".* This is how people from the upper class have always done it." Unfortunately, "professional debtors" do not realize this.

Mr. Jaroslav Gall thinks that different property has "capitalism simply internalized". Whoever works more can have more. He sees the fault in the education system, which does not teach students how to be the best they can be, but how to fit into predetermined categories that determine what is right and what is not.

Mr. Luděk Švarc thinks that the absence of planning is to blame. A beggar lives from day to day and doesn't care about tomorrow. Someone who wants to build a skyscraper must plan for years ahead. One must think and thinking hurts.

7.2 How is it possible to get trapped in poverty?

When asked the question: "In your opinion, how do people mostly get trapped in a debt trap?" Mr. Uchytil answers: "Initially, they take out an innocent-looking loan for something they shouldn't buy, and then they get into a spiral: something happens that makes one take out more loans to repay the original one. He says that he has never encountered a case where someone has ended up "innocently" in a debt trap: the most innocent cases are those where someone tolerates the debts of their partner or someone has to face the reality that their partner is already historically indebted.

Mr. Hummel adds that mostly one of three scenarios leads to a debt trap: 1) People want something right away and they believe that their income is stable and that nothing can threaten it and that nothing will change. 2) After they borrow the money, suddenly the need arises for another loan (maybe even quite legitimately) and the troubles start. 3) Naively they vouch for a family member or a friend as a co-debtor or guarantor and the original debtor stops repaying his debt.

Ms. Vášová also sees the desire to have something *immediately* and the absence of planning and considering the broader context as the main risks. People don't think about what will be! They want the brand name clothes or the new car *now*, they want to solve their housing issues *immediately*. They don't plan. They don't think about how the situation would be if… (fill in as you wish). Another thing is the lack of communication. When they already have loans and still get in trouble for some reason, they tend not to deal with it. They do as if nothing is happening and they hope that a miracle will happen and that money will just appear from somewhere. They do not communicate with the lender. The third crucial point is the availability of loans. Each advertising slot contains at least three loan ads—before Christmas even five. So why should I not take another credit or get another credit card when I can? And when something goes wrong, I will do as if nothing happened, somehow it will solve. As the fourth factor, Ms. Vášová mentions the increasing reliance on debt relief: Why should I make efforts when the government will solve it for me?

Mr. Gall adds that emotional pressure can also often be the cause, because one cannot enjoy or grant to one's family what others can, and thus one feels like a looser. And he also sees a cause in not solving and in postponing problems and not making reserves for bad times.

Mr. Švarc is mentioning that people in the poverty trap usually have excessive preferences concerning time: they cannot wait, they must have everything immediately (holidays, gifts, car). Then they indebt themselves beyond any reasonable level and with the slightest problem they fall into the debt spiral, i.e. repaying one loan by another loan.

7.3 Why is it so hard to get out?

When people are already trapped in poverty, what is preventing them from escaping? According to Mr. Uchytil, very often the reason is the unwillingness of debtors to accept a helping hand because they feel "good" in the position of a victim. Sporadically it can also be due to an internal decision, but, according to him, even such cases exist.

Mr. Hummel sees the fundamental problem as a loss of faith that their difficult situation can be resolved and that there is a way out. People are desperate, but at the same time they do not want to go into debt relief.

Ms. Vášová confirms this and adds without hesitation: "Thinking. They don't think what they should do differently, most of them don't even want to get advice. They just feel sorry for themselves and they blame others. And they are always hoping that it will solve somehow. After all, this is easier than to make effort to come up with something. It's not the *smart kind* that end up in the debt trap or poverty trap..."

Mr. Gall's response also focuses on feelings: "When you are ill (no energy), how easily would you change your job? Would you have time for added education? Also, the lack of discipline tends to be a problem. One has to realize that it will not improve by itself—a change is needed. One has to be able to say no.

Mr. Švarc mentions two things: firstly, the fact that part of the responsibility for bad actions of debtors is shouldered by the government (e.g. the possibility of debt relief). He believes that the smaller the consequences of irresponsible behavior are, the more irresponsible behavior we will see. Secondly, he states the difficulty of the "first step on the way out of debt": "even if they would like to get out of debt by themselves, to start their own business is accompanied by *incredible bureaucratic hassle*. For example, if you would like to help your neighbors for remuneration and earn something like this, you have to get first get a business license, sign up for health insurance, register with the local social security office, the tax office, pay an accountant, ensure to comply with all related regulation etc. So, instead you just don't bother!"

7.4 Measures to minimize poverty

Mr. Uchytil raises the question of whether it is actually smart to "fight" poverty at all, when most people are poor voluntarily. According to him, it is important on the other hand to have a functional system for those who want to receive help. He believes that we do have such a system in our circumstances.

Mr. Hummel would be uncompromising towards lenders in tackling over-indebtedness and poverty. He recommends “deploying the same measures for money lending companies as banks have for people who want a mortgage”. He recommends to shut down shylocks and unlicensed moneylenders without compromise, including their directors of the board, so that they cannot set up another firm of a similar nature just with a different name.

Neither does Ms. Vášová think that poverty can be minimized. Someone will remain poor forever, because “they just cannot do better mentally”. She thinks that it might be realistic to reduce some people’s indebtedness, but certainly not poverty itself.

Mr. Gall quotes an old Chinese proverb: “If you give a man a fish, you feed him for a day, if you teach him to fish, you give him food for a lifetime.” And he adds that it is necessary to teach children how to catch fish and not to just “give them fish”. He also sees the way in creating extremely favorable conditions for foreign capital: “Making our country into a type of *Singapore*”.[43]

Like Hummel, Švarc is also quite radical in this point. He would abolish at least 90% of all restrictive regulation and leave everything more or less up to the free action of individuals. One should “teach people that poverty is the starting point and that wealth stems from useful work. You cannot reduce poverty, but you can increase wealth. A person is not to blame for being poor. But a person is at fault when they are not rich.”

7.5 How to cure over-indebtedness?

According to Mr. Uchytil, education is the main priority. However, unfortunately, this is a long-haul journey and it will likely take several generations to improve financial literacy levels in the nation. The precondition is that the right financial principles are really lived, financial literacy is taught to children by financial literate parents, and financial literate teachers add to this at school. He fears that any kind of regulation is a path to hell. Credit regulation e.g. would push this segment into the gray zone and there would be only little effects.

[43] Forbes: What will happen with Singapore? Lee Kuan Yew has died, the creator of the world’s best-functioning city. 2015. Source: https://www.forbes.cz/co-bude-se-singapurem-zemrel-lee-kuan-yew-tvurce-nejlepe-fungujiciho-mesta-sveta/

Mr. Hummel suggests a significantly tougher stance. In his view, consumers should be obliged to prove what living needs they are intending to solve with the loan before they can obtain a credit or consumption loan. Lending for unnecessary things such as telephones, electronics or holidays should be prohibited. So, debtors would have no choice but to save money for the desired phone—they would have to put off their consumption. After all, the debt must be repaid anyway, and the "quick" gratification is increased by interest paid.

Mr. Hummel includes even cars in the category of unnecessary things, which, in our opinion, is a bit questionable. He probably means loans for more expensive types of cars, including luxury cars, for people with lower incomes. However, if he wanted to stop lending for vehicles of all kinds in general, this could have inadvertently negative consequences. A loan for a business vehicle (e.g. a van for a mason or joiner) may seem reasonable in some sense. Of course, the choice of car must be taken responsibly. If a start-up electrician indebts himself for a new van for 1,200,000 CZK, it is wrong. However, if he requires 50,000 Crowns for a "start-up van" because he cannot or does not want to ask anyone from the family for help, it does make sense.

Ms. Vášová also believes that it will probably not be possible to completely get rid of over-indebtedness. Unlike Mr. Uchytil, however, in consensus with Hummel she states that regulation could help alleviate debt troubles. She is wondering why only bank lending is regulated, but the rest of the sector is left free to do as they want? In her opinion, people are getting into increasing problems and even bigger debts, precisely because there is always someone else to lend to them. If non-banking companies would have to meet the same criteria as banks, this would not happen. It would be more realistic for debtors to get rid of their debts and they would not have to wait for someone to forgive them.

Another thing, according to Ms. Vášová, an experienced financial literacy lecturer, is financial literacy itself. However, she emphasizes that not "in the form in which it is now taught at school. It is a shame that even after so many years of talking about financial literacy and schools knowing that they are supposed to teach it, there is still no clear curriculum, every school can teach what they want and transmit the information that they deem appropriate. There is no unified concept, there is no unified content of what pupils should learn in elementary school and no follow-up education for secondary schools and universities."

As the third key factor, she mentions the absence of a good level family financial advisor as a model that has been successfully working in the West for decades. If such a counselor for families would exist, “not only would the parents be in good shape and the children would see a good example to emulate, the trusted counselor could then also automatically take care of the children later on. I have actually so many such clients and it works great, nobody is questioning whether financial advisory services as such are a good idea, it has already been proven and experienced by the parents.”

Ms. Vášová is also in favor of a general ban on financial product ads because they always contain out-of-context information. “No one gets the *starting at* interest rate, not everyone gets the loan *for everyone*, the insurance of *all risks* finally insures nothing, the *cheapest* car is not the cheapest at all etc.” Ms. Vášová is convinced that due to well-developed and often slightly misleading advertising people feel that “everything is so easy” and, most importantly, “this is exactly the right thing for me”.

To address the phenomenon of over-indebtedness, Mr. Gall recommends looking at what has already worked abroad.

Mr. Švarc would do nothing to prevent over-indebtedness. Above all, he emphasizes the need for a strong emotional experience, thanks to which one truly realizes that he did something wrong and can learn from it. He would let the people “think freely. And if they got into debt, I would let them fully bear the consequences of their behavior. The school of life!”

7.6 The most common mistakes how families mismanage their budget through the eyes of experts

Mr. Uchytil compares “healthy” finances to a healthy lifestyle. According to him, the most common mistakes stem from the fact that people don’t actually know what healthy finances should look like. Everyone has basically some idea of a healthy lifestyle, but still we live our lives differently. We eat fatty and sweet foods, we don’t do physical exercise, we drink alcohol, smoke etc. In the case of finances, the situation is all the more complicated because we do not even know how to fight or prevent this "financial obesity".

Hummel agrees with Uchytil's view. People "do not know how to work with money, how to create reserves". There is a general consensus and belief that money simply comes in every month. When people are borrowing, they hope to pay it off again easily, that everything will *somehow* solve (by itself) *as usual*.

But he also presents another radical view. "I would prohibit cards and *beeping*!" He would rather see people paying cash so that they can keep in mind how much money they have for how long. He also suggests creating a kind of a "mandatory phone app" that would every evening or ideally before every purchase show to the consumer their goals, the balance on their account, a comparison whether they exceeded some average, whether they are at risk of not making ends meet etc. It could always be activated when arriving at a department store while passing through an entrance terminal. Before each purchase, people would thus see at a glance whether they can afford that thing or service or not. With tongue in cheek he adds that there would certainly be grants available for this.

According to Ms. Vášová, the most common mistake people make when managing their finances is that they do not think, do not plan, do not have to take care of virtually anything and do not distribute their money "into slots" according to some plan.

People do *not think* in the moment when they "get suckered into something by a friend" (to buy an exclusive and, with great probability, extremely overpriced product or service). They see a TV ad for something that catches their eye and they buy it right away. In such moments their decisions have little in common with reason.

They don't plan—they don't think about tomorrow! "*Dude, I live now, I want to enjoy now*!" We live in abundance, we do not have to make much effort, we do not have to earn anything, it always pans out somehow.

In her answer to this question Ms. Vášová also mentions the political context. The inexperience with money management "is certainly related to socialism, which took everything away from everyone, but on the other hand, everyone had everything: work, housing, kindergartens, schools. There was no need to make effort in this direction, because the government took care of it." If we would be living in Switzerland, where it is normal to build up wealth from generation to generation, we would probably have a different mindset. But in our circumstances, there is something seriously lacking, some generally recognized authority that would teach us the right skills and mental patterns. The slower way is to wait for our generation (i.e. today’s 30-year-olds) that started asking the right financial questions and that got the opportunity to build up wealth, to teach their children the right behavior.

Money is not divided into slots: again, this is related to financial literacy. Basically, there are two approaches: “When I get my paycheck, I pay for housing, food, then I enjoy myself, and when nothing’s left, I can’t save, right?” Or I can do it the other way ‘round. “When I get my paycheck, I put money into savings and into slots that I have planned for, before I spend the rest.”

Mr. Gall also lists several reasons. People spend on things that they do not necessarily need, they don’t watch their spending, they do not make an annual budget, they buy brand name goods (they don’t decide according to a price/performance ratio, but according to the manufacturer), they are subject to bad habits (cigarettes, alcohol, coffee…) for which they spend considerable money. He states that he personally knows people who spend even 5,000 CZK on smoking per month. He also mentions the ignorance or failure to apply the Rule 10-20-30-40[44], installment purchases and the addiction to overdraft and credit card.

Mr. Švarc is very brief in his reply. He refers to his earlier answers and stresses that people do not plan. They are only able to see until their next paycheck, or maximum until Christmas or the upcoming holiday.

7.7 900,000 people in distrainment. What about their debt relief?

The last question that we asked our respondents was: “In the Czech Republic, we have almost 900,000 people in distrainment. Do you perceive it as sensible to cancel their debts (by the government) or is this nonsense?“

Mr. Uchytil states that this is the reality, we cannot run from it, and we cannot ignore it. For things not to get worse, prevention is needed—not regulation. “What has already happened, should be taken care of by the government, the bankruptcy law should be amended, so that debt relief becomes available to the

[44] Will be explained below.

majority of debtors; i.e. the law shouldn't limit their "ability" to repay 30% of their debts within five years, and it should be more accommodating to those who cannot prove that they have sufficient resources for repaying and paying the costs of bankruptcy proceedings."

Mr. Hummel sees government action *from outside* not as a solution: "Not unless there is also prevention." However, he believes that a significant reduction in distrainor's remuneration, even retroactively, would help, because "this is where it gets expensive".

Ms. Vášová worries that while the idea of helping debtors is worthwhile, it could ultimately harm them. She presents a comparison with the physiological development of a young child. "Help is probably a good idea, but any help is often *punished as merited*. It's like I want to help a little child to learn to walk, and I keep taking it by the hand and I keep running after them. It's not good for me: I will probably have back pain, but it's not even good for the baby, because its bones and muscles are not yet well developed at young age—only animals are like this. We get formed by our movement, i.e. as the body grows and the muscles increase, the child can begin to use them and as the brain grows, the muscles begin to form the child's bones, which are precisely formed by proper use. So, if I will pull my child from childhood by its hands, it will most likely have scoliosis from childhood, because its spine will not have a chance to form properly. The same goes for the hips and shoulders, so if I *overdo* it, I will cripple my child and then I will have to take it *by the hand for the rest of its life*. The government does the same: people do not learn from it, and therefore we have not only multiple distrainment cases but also multiple debt relief cases and personal bankruptcies! I think it would be easier to regulate the market so that such people couldn't get more loans, and then help them get a better job so that they can repay their debts."

Also for the case of debt relief, Mr. Gall would again seek for inspiration abroad and in foreign studies to see what has already worked well and what has not. He points out that debtors that are hit with distrainment find themselves usually already in a "debt spiral". In the Sudetenland regions, distrainment affects up to 15% of the population.[45] He recommends regulating untrue and misleading ads that promote 0% of interest but conceal astronomical charges, and he also emphasizes

[45] Distrainment map: Source: http://mapaexekuci.cz/index.php/mapa-2/

the necessity to amend the distrainment process. He refers to estimates of the legal news server Češi v právu, according to which the government earns annually 400-500 million CZK in value added tax on the costs for distrainment proceedings.[46] Mr. Gall condemns the fact that it is possible for a small debt to develop into a liquidation level debt. He would appreciate a change in the communication with debtors, especially those who have already resigned themselves: not to abandon them, because they are getting into even a greater *mess* due to all sorts of delays.

Mr. Švarc supports the option "absolutely no debt relief!" People must take responsibility for their actions in order to learn. And not just debtors. Creditors also must be held accountable for their recklessness. "When they lend money to someone who doesn't give it back, and there's no way to get it, it is their stupidity," he adds.

8. Risky behavior when managing money

Before we look at solutions to the situation, let us summarize the most common risk factors and the most common mistakes that people are making in managing their family budget and money in general.

8.1 Risk factors and their possible causes

Among the main risk factors affecting the financial health of Czech families the authors of this study are ranking the following:

- Not realizing that something is wrong,
- The absence of long-term thinking,
- The desire for a higher standard of living that does not correspond to one's income,
- Related to this a delusional achieving of a higher social status,
- The accumulation of movable goods,

[46] ČTK (Czech News Agency): The government earns up to half a billion CZK annually on distrainment, claims the creditors' association, 2019. Source: https://zpravy.aktualne.cz/ekonomika/stat-vydelava-na-exekucich-az-pul-miliardy-rocne-tvrdi-asoci/r~395d65fad5ed11e9b259ac1f6b220ee8/

- Bad examples in the family and the social group,
- Low financial literacy,
- And the fact that most people are not educating themselves in this area.

When we don't know that something is wrong, it is hard to change it. Especially, if everyone else behaves just like us. But, what is common must still not necessarily be right!

If we want to enjoy right now, we tend to forget about future needs and overlook potential risks. We do not think that one day we will be old, and the national pension will be significantly lower than the income that we are used to today. We are surprised, when after five years of service our hot water boiler suddenly breaks down, and we may also not have expected that after long years of loyal duty our car one day stops running (or someone just doesn't give us the right of way at an intersection). Partly at fault is the fact that we are accustomed to monthly income. If we were given e.g. money for the whole year at once, we would very likely plan how to divide it up.

Short-term thinking is simpler, allowing the brain to down-play the responsibility for long-term tasks and to postpone it indefinitely. We do not realize that our behavior today affects how our lives will look like in the future and how we will be doing.

We have already mentioned several times the desire for a higher standard of living, the desire for recognition and a high social status or the desire to keep up with someone and to fit in a certain social group. At this point, we just want to reiterate that exactly this desire is one of the strongest and most intense motives of human action, but also a powerful tool to get people to behave in a certain way. We have learned to evaluate others by what they have, and not by how they are. We envy others.

We tend to accumulate consumer goods, books, footwear, clothing, and to spend "as much money" as possible on travelling, eating and drinking and on "special" experiences. We tend to forget that ownership of things in itself requires additional costs: we need a larger flat, a bigger storage space, a garage, wardrobes etc. Acquired things need care and maintenance (instead of spending our time e.g. in looking for investment opportunities). We are negatively affected by fear that we will lose our property, the phone could break, we might lose our expensive bracelet etc. Yet many of these material goods are completely useless for our lives.

Some causes of the mentality of *having to enjoy oneself and spend the money as quickly as possible*, i.e. consumption-based behavior in general, can be found in the experiences of the previous generations and the behavior patterns and philosophies that parents have instilled in their children: *"We couldn't, but you should enjoy your youth!"*. But sometimes, this enjoyment can result in going completely "on a rampage". We do not want to work, we do not like to limit ourselves, we don't respect any boundaries. With our partners we like to share only the positive things, but we are unable to give in to others and we do not like to compromise. We tend to divorce and to live a single life.

We are also influenced by politics and we still have traces of the socialist past in ourselves, when the accumulation of property in the form of money, but also in the form of valuable machines or real estate, was deemed a risky behavior.

Emotions are key factors: besides desire, these are mainly mistrust and fear. Examples of situations that in recent times have seriously undermined people's trust and have negatively impacted their attitude towards accumulating property are the nationalization wave of 1948, when private movable and immovable property was massively transferred into the joint ownership of the totalitarian regime[47] and the 1953 monetary reform, when most of the citizens virtually lost all of their savings overnight[48]. The affected generations, but also the following generations are thus afraid for their current property and, to some extent (consciously or unconsciously), they expect that one day something similar might happen to them too.

That's why owning small things and enjoying them seems to be the safer alternative. I rather buy an expensive TV or an expensive motorcycle (and I disregard the fact that it will lose much of its value very quickly) rather than having someone take my money away one day.

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[47] ČT24 (Czech Television): Many families lost everything from one day to another. In 1948 Communists fully unleashed their nationalization efforts, 2018. Source: https://ct24.ceskatelevize.cz/domaci/2460688-rada-rodin-prisla-ze-dne-na-den-o-vsechno-v-roce-1948-komuniste-naplno-rozpoutali

[48] iDnes news server: CONCISE: Monetary reform in 1953, the vouchers disappeared and all savings with them
Source: https://www.idnes.cz/ekonomika/domaci/menova-reforma-1953-listky-uspory-ksc-zlodejina.A180601_405038_ekonomika_hm1

However, we do not even have to go so far back into the past. To the financially uneducated population of our country, serious blows were dealt to by the coupon privatization of 1992 and 1994 and the scandals like the Harvard funds, the housing schemes like H-System[49], the practices of some financial consultancy companies that squandered people's lifetime savings in investment life insurance and with which now many clients are playing tug-of-war with the help of financial arbiters, or the Ponzi schemes, where still nowadays people are losing their money in.

It is no wonder, therefore, that distrust is pervasive, and people prefer to spend their money rather than to let someone *rob them again.* Recognizing a quality service from a lousy one is in today's age that many are calling the "post-factual"[50] age, very difficult. Everything can be found on the Internet, but how to make sense of it? Emotions are decisive—and again, these are desire, distrust and fear.

Insufficient financial literacy is manifested e.g. by the lack of distinguishing between what is necessary expenditure, what is an asset and what is a liability and their subsequent confusion. Many people consider a house to be a profitable investment (i.e. an asset, although it costs them a lot of money for its operation every month), they see grandpa's motorcycle as an asset for old age, which, however, they will never sell because of emotional attachment, or e.g. a piece of land that they have to take care of and are unable to utilize etc. As a necessary expenditure they deem winter clothing, but they opt for designer brands, where the logo embroidered on its front increases its selling price by half.

Among the risk factors is also the fact that most people do not educate themselves in this area and they don't feel the need to behave differently. For them it is enough, to do as they always did, to do as their parents did and to do as their friends do.

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[49] Novinky news server: H-System clients will definitely lose their houses, 2019. Source: https://www.novinky.cz/domaci/clanek/us-odmitl-stiznost-svatopluku-verdikt-o-vyklizeni-domu-dal-plati-40298363

[50] Aktuálně news server: Discussion below the article: Post-factual age? Emotions are winning. The one with the most likes is right, we vote for entertainers, says influencer Špok. Source: https://video.aktualne.cz/dvtv/doba-postfakticka-emoce-vitezi-pravdu-ma-ten-kdo-ma-nejvice/r~4868c726ac4011e687f70025900fea04/v~diskuse/

8.2 The most common mistakes in general

Among the main mistakes that people do in relation to their money are the following:

- They do not plan and don't think in context,
- They are not aware of what they spend money on or how much they spend,
- They don't create sufficient financial reserves,
- They are not prepared for unexpected life situations (including health problems),
- They borrow for consumption,
- If they do save, they choose products with a minimum of appreciation, they *worship* everything that is *guaranteed*,
- They confuse investing with speculation,
- They believe that they understand best about finances themselves and do not get advice,
- And even if they get advice, their responsible attitude doesn't last long, and soon they return back to their established patterns of behavior,
- They don't go to a professional for advice, but to friends or dealers of certain specific products,
- They easily bet all on one card.

The authors of this text and the consulted experts unanimously agree that the main cause of financial difficulties of today's individuals are their *head and the established ways of thinking*. People don't think much about their money, they don't think in context and they don't plan in the long term. Most often they consider a future of one or two months, they set milestones only such as holidays or Christmas, and a forecast of 10 years and more seems to them too far away: "*who knows what will be*". They argue that they live now and that now they want to enjoy themselves, so they do not create much of any reserves over a longer period of time.

Few households keep regular records of how much they spend and for what they are spending. More often, people are just looking how much money they still have left in the course of the month, and how much thus they can still *enjoy*.

Concerning a basic allocation of expenditure we can see two contradictory approaches. The typical behavior of a large number of people is to pay from the paycheck the necessary expenses for housing, food or clothing (or to pay off debts from the last month), then make myself happy with something, buy something that I feel I really need right now—and at the end of the month the account is empty. The scenario is the same, even if a person receives bonuses and the income is several times higher. This group of people simply "spends everything that is available". The "appetite grows while eating", and thus we can see such behavior in all the different income groups of the population. As long as there is money on the account, we shop, go out, go to spas and get massages, travel and *splurge*.

However, in our opinion there is a positive development where especially young people are more starting to think differently, they plan concerning their income and their expenditures and they are understanding the context of things. After the paycheck comes in, they pay the necessary expenses, they send some of the money to a savings account in case of unexpected expenses, they send their contribution to their pension trust, they invest in mutual funds so that they can actually really buy their dream caravan in ten years, and they pay their insurance. And only then they start thinking, what needs to be bought at the moment and *how much* they will spend on enjoyment. These people also know how to make themselves happy, but they are equally able to postpone their consumption if needed.

Those who do not create financial reserves are usually able to defend their behavior in the spirit of Pareto's theory of residues and derivatives: *"I can buy a new refrigerator at any time in installments at no price increase, so what are you all talking about putting money aside?"* They believe that their income is stable, and that they will be getting it every month on the fifteenth until the end of their (working) life. They do not realize that we are currently at the peak of an economic cycle and that things will be quite worse probably soon. They claim that they will not live until their pension age, so why should they limit themselves? However, the statistics speak differently. Men live on average until age 76 and women until age 82. And the average life expectancy is constantly increasing.

Many people are not prepared for extraordinary expenses or unexpected life situations. As mentioned above, approx. 65% of the population have reserves of only a maximum of three times their monthly expenditure. A fast growing child's foot, which needs new shoes for already the third time this year, a cracked molar bottom left, which must be replaced with an implant for 12,000 CZK or a broken mobile phone display—all this can mess up the family budget seriously. Not to mention the payment of a new flat rent or alimonies after a breakup or divorce, or a broken leg, a diagnosed malignancy or death of a family member.

Just a few months of loss of income (i.e. the only income of the individual, because no alternative resources have been built up) and everything starts to crumble. Combined with a tight budget full of consumer goods, adventures, cigarettes, going out and expensive holidays, depression can set in, when suddenly there is no money for nothing that such people have been accustomed to... Problems at home translate into reduced performance at work, which in turn may be rewarded by getting sacked. This is the moment, when quietly a first consumer credit creeps into such a household…

Consumer loans allow people to buy the desired item quickly and at a minimal monthly cost. The problem, however, is that people with loans do not set aside free resources and try to pay off their debts first, instead they just keep increasing their consumption. They become accustomed to a "fancy life-style", and when e.g. the car breaks down, they automatically reach for another loan. And then troubles aren't far away anymore.

A common mistake of financially uneducated people, who nevertheless have the ability to set money aside, is their internal need to have their savings "guaranteed". For their money saving they most often just use their current account (and at age 60 they can easily have one million Crowns ready there for old age), each member of the family is having already their third building savings and as the most dynamic product in their portfolio they consider a transformed fund, of which they mistakenly believe that it is also guaranteed. These people do not understand how inflation is affecting their savings. And it is precisely such people for which even a little guidance in distinguishing the purposes of different financial instruments could be of great help.

It is also common to encounter people who do not perceive a difference between investment and speculation. They consider investment as a high risk. Yields of around 7% p.a. seem to them to be "low", but they easily let themselves be lured into quick returns *right away* and they opt for truly speculative deals such as cryptocurrencies, "guaranteed" bonds of unknown companies or forex. And, on the contrary, they choose structured investment products, with the guarantee of at least the return of the deposited amount, but they earn nothing on it in the end and still inflation takes a big chunk out of their money…

It is also a mistake to think that we understand the world of finance best by ourselves and that it is not necessary to consult someone (of course, unless we are formally educated in finance or have been working in the field for a while). And if we want to get advice, we usually turn to friends, bankers or building society sales representatives. What do we expect that they will recommend to us? Something really interesting, or just one of the products from their work? Our experience showed us that even if such a person really wanted to recommend something interesting from across the market, they usually have no idea what kind of other offers exist elsewhere.

Any change needs time. Even for changing our approach in dealing with our money, we need to be aware of this and we shouldn't take too big steps right away. It is then very easy to get lost again and never find the way anymore, i.e. to again start behaving according to our old patterns.

9. Sample family budgets

In this part of the study we present three model examples of money management. We consider a 30-year-old person with an average gross income of 34,000 CZK. (In the Czech Republic, in the third quarter of 2019, the average gross salary was 34,105 CZK[51]; and the average net salary for a childless person 25,553 CZK.) For the purposes of this study, we assume a net income of 25,000 CZK per month. We want to illustrate how diametrically different can be the outcome in the form of savings and property at the age of 65 of a given person, when we choose three different paths beginning at the same starting point: Spending everything what

[51] Average salary: development of the average salary, 2019
Source: https://www.kurzy.cz/makroekonomika/mzdy/

a person earns; creating small reserves; and a conscious management of the cash flow according to generally accepted recommendations.

Consumers can be divided into three groups according to their attitude towards asset generation:

1. Those that do not limit their consumption and follow the rule *I spend all I earn.*
2. Those who set aside only the surplus of income and the building up of property depends on their current consumption.
3. Those who manage their finances on arrival (i.e. by the rule 10-20-30-40).[52]

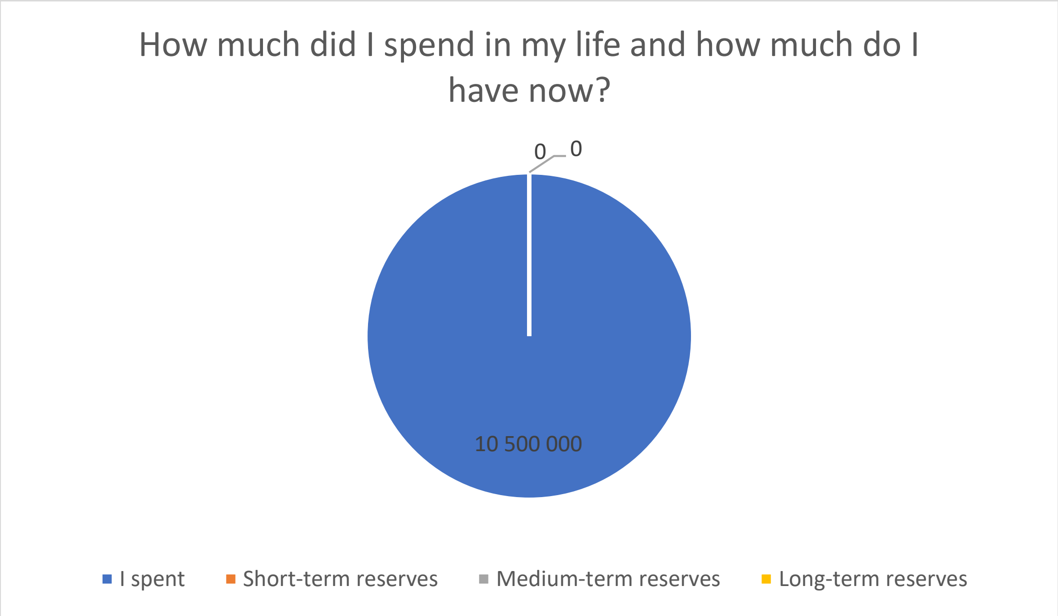
9.1 Case 1: "I spend all I earn"

For the people of this group, savings are usually near zero, and they tend to be indebted on the level of consumer loans, credit cards and overdrafts. The amount of pension savings is also usually minimum or zero, and any possible reserves tend to be liquidated at critical moments for sudden necessary expenditures. If such a person owns a piece of real estate, this real estate is largely at risk from potential debts. This group has the greatest tendency to get caught in the debt and poverty trap.

The value of property of this first group is also usually around zero or even negative on the long-term basis—they often live on debt or "from paycheck to paycheck". They borrow time and time again for each new appliance or any larger expense, and so their income is additionally burdened with interest that they are paying to their creditors. The only exception are people who have inherited something or have bought a piece of real estate on loan and have gradually paid it back. Such property, however, tends to be threatened due to their way of money management. Any kind of serious life situation requiring financial compensation can economically endanger this group of people and their kin.

[52] Will be explained below.

And what does their situation look like at the age of 65, when they will retire, assuming that all their life they had an income of 25,000 CZK, i.e. 25,000 x 12 x 35?



Situations that endanger this person the most:

- Loss of income due to job loss—this leads to income reduction (unemployment benefits).
- Loss of income due to illness or injury—this leads to income reduction (sickness benefits). This group of people usually doesn't have sufficient insurance, and often has even no insurance. They regard paying insurance as an unnecessary expenditure, which will reduce their standard of living.
- Sudden necessary expenses, such as buying or repairing a car that they need to go to work, the breaking down of an important appliance (fridge, washing machine etc.), necessary expenses for family members etc.
- One of the riskiest situations is going into retirement.

The consequences of such dangerous situations:

- This person is used to consumption, which, however, is often inadequately high compared to their income. At a loss of revenue there could be not enough resources for it. Also, the necessary expenditures such as rent or mortgage loan repayment are often set inadequately high and thus even existential difficulties may arise.

- The lack of resources affects the whole family. This could lead to psychological problems that make the situation even worse: healing in case of illness or injury may slow down, and stress can also worsen the situation when looking for a new job.
- Difficult situations tend to be solved with an overdraft loan or a credit card, because in a situation without a stable income it is usually not possible to obtain a regular consumer loan with a decent interest rate. Common are unregulated loans from the gray economy with a huge APR—*paying back loans with loans*. The total debt can grow to extreme proportions. As soon as the repayments exceed the income after deduction of the necessary expenditure, such a person gets caught in the debt trap. Gradually they lose all valuable property by distrainment and their return to normal life becomes jeopardized.
- A permanent loss of income (e.g. as a result of disability) is devastating in such a case—for both the individual and their possible family.
- Retirement without prepared resources or even with debts means a significant reduction in living standards. One becomes completely dependent on the income from the government and has no significant hope for a change.

Common errors:

- Refusing to change habits and adapt the flow of money on arrival (i.e. immediately after payout)
- Too much confidence in the unchangeability of one's income, rejecting any notion of a negative development of the current situation
- "Sticking one's head in the sand" when faced with already known future expenses: e.g. when I know that I am driving a 10-year-old car, it is very likely that I will soon have to face necessary expenses for repairs or even have to buy a new car.

9.2 Case 2: "I don't limit my consumption, but I save any surplus"

The amount of savings is not too high even in this case, but a certain financial buffer usually exists. People of this second group are aware that some reserves are needed. They typically have some financial reserves on their current account of approx. one month's income (i.e. 25,000 CZK), they also have a savings account to which they send on and off 500-1,000 CZK a month, and for their retirement they save 300-500 CZK per month in a supplementary pension insurance or transformed fund. Their insurance is mostly an accident insurance with payments of around 500 CZK per month. The payment of rent or a housing loan takes up usually 50% of the income. The remaining resources are usually spent on consumption. If anything is left after that, it is set aside—but this tends to be irregular and impulsive.

The value of such a person's property is developing as follows:

- 1,000 CZK per month to the savings account creates an amount of only slightly higher than 12,000 CZK per year[53]
- 1,500 CZK per month creates a lump sum of approx. 100,000 CZK every 6 years[54]
- 500 CZK a month for supplementary pension insurance will amount at the age of 65 to approx. 585,000 CZK[55]

If we do not consider some continuous increase in income nor inflation, such a person would earn a total of over 10 million Czech Crowns during their 35 years of active work life (25,000 x 12 x 35 = 10,500,000). From the total volume of money earned, they would have at age of 65 reserves on their current account of 25,000 CZK, in medium reserves 100,000 CZK and prepared for old age around 585,000 CZK.

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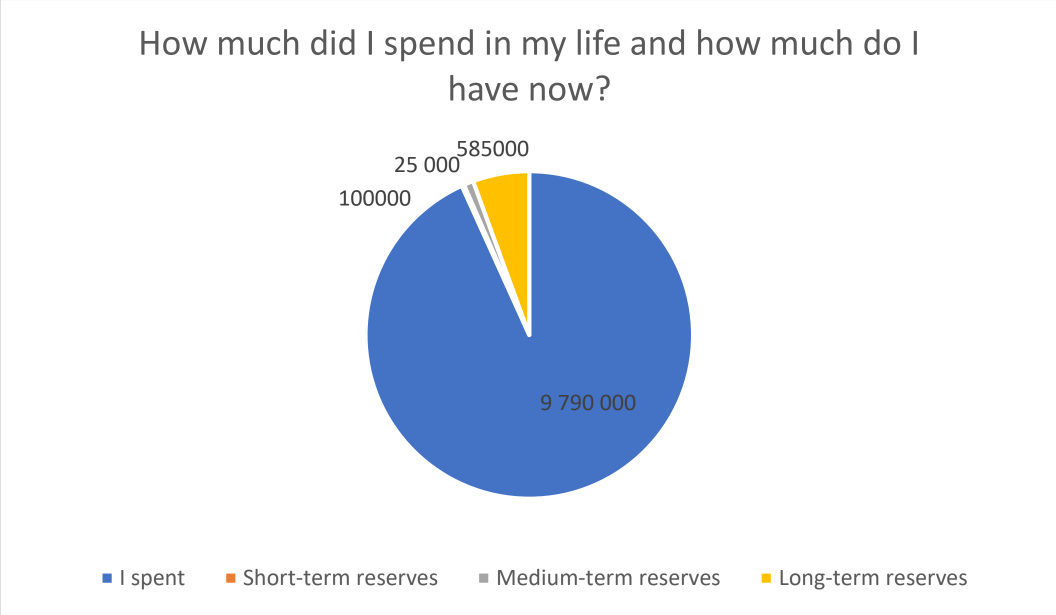
[53] We consider an appreciation of 1% p.a. before taxes.
[54] We consider an appreciation of deposits of 1%, government support of 10% of the annual deposit, processing fee of 1% of the target amount and a fee of 300 CZK per year for maintaining a deposit account
[55] We consider a fixed deposit of 500 CZK per month with a government contribution of 90 CZK per month and an appreciation of 2% p.a., we do not consider inflation depreciation.



From these calculations it is clear at first glance that the lack of short-term reserves may cause that any major expenditure could lead to debt. And even in the long term, the saved amounts are insufficient. If simply drawing a pension of 5,000 CZK per month, the amount saved for the retirement age would be reduced to zero already in 9.75 years. In addition, it is necessary to take inflation into account (we estimate about 2.5% p.a.), which reduces the purchasing power of money and thus any savings over time. For the saved amount of 585,000 CZK, in the course of 35 years we buy today less than half of what it was worth then.

Situations that endanger this person the most:

- Loss of income due to job loss—this leads to income reduction (unemployment benefits). The available financial reserves are generally not sufficient.
- Loss of income due to illness or injury—this leads to income reduction (sickness benefits). Insurance for this group of people is also inadequate: they set it up to "*cost around 500 Crowns a month*". Usually it only covers accident risks and neglects illnesses (i.e. more expensive risks in terms of insurance costs). Disability, which would be the most burdensome for the family budget in the current view of experts, is often completely missing in insurance policies.

- Sudden necessary expenses, such as buying or repairing a car, an appliance, expenses for the family: again, they cannot be covered completely by reserves.
- Going into retirement.

The consequences of such dangerous situations:

- A short-term loss of income due to the loss of employment or a late invoice payment for self-employed persons can usually be covered by this type of people (one to two months). However, if the search for a new source of income is prolonged, the risk of existential difficulties may be looming.
- Similarly, they are able to bridge a short-term incapacity to work without serious difficulties. But again, a long-term or even permanent incapacity to work will break such people, as in the first case. Financial reserves are insufficient and cover only a very short period of time, insurance is usually only of the accident type and it mostly covers only minor injuries. Serious injuries or diseases are covered only marginally or not at all. The result can be a dramatic decline in living standards or even the loss of housing.
- Again, after going into retirement, the income declines substantially and the standard of living decreases significantly. A common phenomenon is spending all old-age savings on a one-off expense, like fixing the roof or the purchase of a cottage… Thus, the standard of living then decreases to the standard of living of the first group.

Common errors:

- They do not set aside enough resources—their idea concerning the sufficiency of deposits are set too low, e.g. that for a well-lived pension it is enough to set aside just 500 CZK a month, that one can get quality insurance for only 500 CZK a month etc.
- If their income increases, they increase their consumption (they buy more expensive goods or services), but they do not increase their deposits into assets.

9.3 Case 3: “I follow the rule 10-20-30-40”

This type of people consistently set money aside according to a predetermined scenario at arrival, i.e. immediately after payout. The rule 10-20-30-40 is one of the methods of setting amounts that limit specific areas of expenditure.

10 represents the share of income that goes to **reserves** and the **securing of income** as such: i.e. immediately after payout these people send 10% of their income for the creation and continuous replenishing of emergency financial reserves (a total of 5% of the income) and for insurance (another 5%). The target are contingency reserves of three to six times the monthly expenses, which are meant exclusively to finance unforeseen situations, such as the necessary purchase of a broken appliance, car repair or the financing of consumption due to loss of employment or incapacity to work. Quality insurance primarily takes into account cases of long-term or permanent loss of income (caused by injury but also by illness, including disability insurance and also death). Insurance for a young and healthy person usually costs up to 5% of the income, so it is essential that people set up their budget in this way as soon as possible.

20% of the income should be used for building up more reserves, whereby it is divided into three basic groups. The first 6% should go into so-called **short-term resources**, which are meant to finance larger expenditures over the following five years (car purchase, bathroom renovation). Another 6% should go into **medium-term resources**, i.e. for a time frame of about ten years. In this case, it is meant for larger expenditures like a major housing renovation or the acquisition of new housing. The last 8% of income should go into **long-term resources:** i.e. typically financial resources for the retirement, and also e.g. for the studies of the children etc.

30% of income is the limit for the monthly consumption—expenses for so-called **daily life**. This category includes all the expenses for meals, clothing, entertainment, holidays, gifts, extra-curricular activities and courses, including e.g. travelling to work.

40 means that 40% of income should be dedicated to **housing** (rent, housing loan repayment, energy costs, services, property insurance etc.).

The last two categories are interchangeable. If an individual has lower housing costs, they can afford higher consumption and vice versa. However, in total, these two categories should not amount to over 70% of the monthly earnings. A clearly defined and limited amount of consumption expenses and housing costs guarantees long-term financial health for a family.

For a monthly income of 25,000 CZK net, the specific expenditure allocation is as follows:

- 10% of income for reserves and insurance, i.e. 2,500 CZK per month
    - 1,250 CZK per month for emergency reserves
    - 1,250 CZK for insurance
- 20% for the fulfilling of targets, i.e. 5,000 CZK per month
    - 1,500 CZK for short-term resources
    - 1,500 CZK for medium-term resources
    - 2,000 CZK for long-term resources
- 30% for consumption means an amount of max. 7,500 CZK per month
- 40% for housing means an amount of max. 10,000 CZK per month

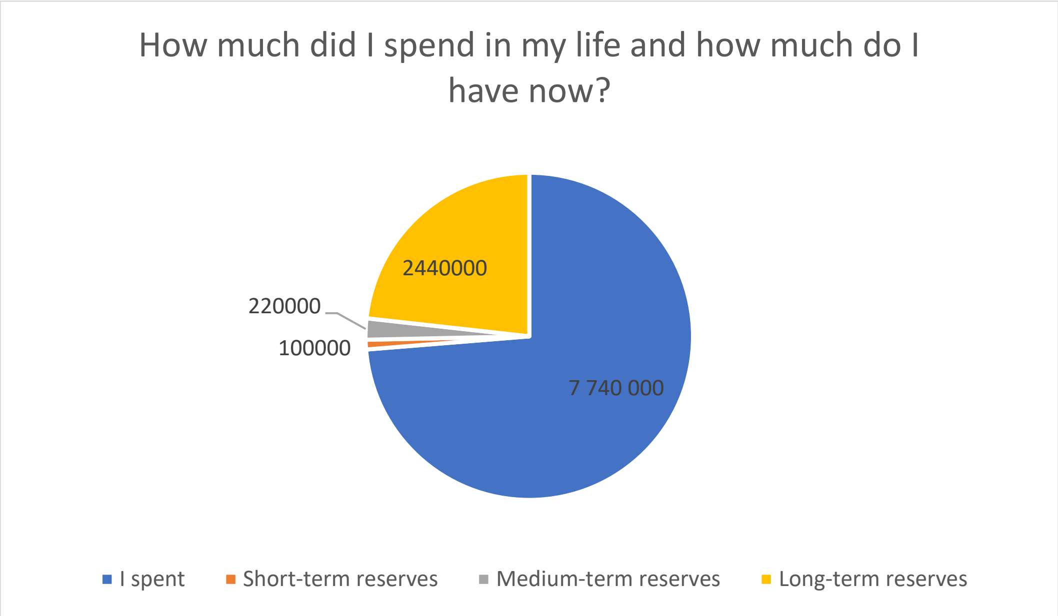
In compliance with the above rules, an individual will be able to save approximately 15,000 CZK per year for emergency financial reserves.

Over the term of 5-6 years (we consider 6 years for easier comparison with the previous case) they will save approx. 100,000 CZK—and this regularly every six years.

For the medium-term, such a person can afford to use financial products with higher appreciation of deposits, because thanks to their emergency reserves and also the short-term savings it is highly unlikely that they will need the money earmarked for the medium term before ten years. Assuming an appreciation of 5% per annum, with deposits of 1,500 CZK per month they prepare an amount for medium-term resources of around 220,000 CZK[56], and this every ten years.

[56] We consider investment products with an appreciation of 5% p.a., when paying a continuous entry fee of 4% from each payment, e.g. an investment using mutual funds.

For the long-term resources, it is possible to achieve a relatively significant appreciation with the deposit of 2,000 CZK each month, because the considered 35-year term allows the use of more dynamic financial products, provided that the risk is low. When making a deposit of 1,000 CZK per month to the government-supported supplementary pension savings, it is possible to obtain approx. 1,370,000 CZK.[57] The remaining 1,000 CZK can be invested in a similar way, albeit without a government contribution, but again with higher appreciation. Such an investment can create additional resources of approx. 1,070,000 CZK over 35 years[58].



The third type of consumer is an example of the fact that the value of property, even for ordinary people, can significantly increase every year when money is meaningfully handled. Such a person is significantly more resilient to adverse situations such as job loss. They are not used to spend all the money, they have emergency contingency reserves, they are able to set aside 6,250 CZK every month and they are well insured. They are preparing roughly five times more resources for their retirement age than the previous consumer group.

Here we would like to invite the reader of this study to a small experiment. Please take a calculator and calculate how much money you have earned during

[57] We consider appreciation of 5% p.a. and a government contribution of 230 CZK.

[58] Here too, we consider an appreciation of 5% p.a. and a continuous entry fee of 4% from each payment, i.e. the same return as for the medium-term reserves. However, the yield potential for the long term may be even slightly higher (6-7%). In the presented calculation, however, we want to be intentionally slightly pessimistic and thus present a highly probable result value.

your work life so far. Multiply your average net income by the number of years you have been working and then by 12 (the number of months per year). According to our experience you will get an amount of many hundreds of thousands or even several million. Now answer yourself: How many percent of this amount do you have now in your current account, how much in reserves, how much in real estate and other property and how much did you just spend? Do you know on what? We realize that such a calculation is of course roughly approximate and considerably simplified and distorted, but to illustrate the issue of money management it is definitely sufficient.

Situations that endanger this person the most:

- Sudden necessary spending at a young age when not much reserves are yet established.
- Inconsistent setting up of the insured sums in insurance contracts where they do not reflect the realistic decrease in income for individual insured events.

The consequences of such dangerous situations:

- In the above case, almost all risk situations can be solved by means of reserves and free resources. Short-term and long-term loss of income are covered by financial reserves or insurance. Future expenditures that cannot be financed by regular monthly consumption (the 30% item) find their coverage in the respective categories of short-term, medium-term and long-term reserves.

Common errors:

- It is not possible to make too many mistakes when adhering to the above rules. However, it should be noted, that when their income increases, these individuals often do not consistently increase the deposits for all the respective savings items—usually, just consumption is increased. Therefore, it is necessary to regularly review and adjust the allocation of resources.

10. Possible solutions

The authors of this study see solutions to the mentioned problems on several levels.

First of all, we need to realize that we actually need much less things than we think, and that it is time to start assessing oneself and others by criteria other than the amount of property and the objects that we surround ourselves with. The importance of values such as health (and related to it sports), interpersonal relationships and inner peace must be strengthened.

After all, for a happy life, it is not *vital* what kind of a car we drive and how expensive was the handbag of our outfit. Many publications have already explored, how the pursuit of property has negative effects on our lives. For example, the seven-time Czech karate champion and personal development coach Pavel Moric[59] says that we are *junkies for success*, who do not realize that abundance can already be seen just in the fact that we have something to eat, and that *beautiful* may not only be an American movie epic, but even just a simple morning walk in fresh air.

The former coach of the hockey player Jaromir Jagr Marian Jelinek[60] calls today's people *target junkies* that are constantly chasing after something—when they reach success, they experience momentary pleasure that fades away very quickly, and then they find that they need to set even higher goals in order to still feel some satisfaction and pleasure at all. And yet, even the path can be the goal…

Robert T. Kiyosaki, a successful American entrepreneur and author of a number of bestsellers, elaborates on the *rat race* theory[61]. At school, we are brought up to learn well, to have good grades and to find a well-paid job one day. We then regularly go to work and earn money to pay for our expenses. For our sincere efforts we are getting rewarded with a promotion, but in a higher position we are already

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[59] Aktuálně news server: We're doing something wrong. We're junkies for success, just being slaves of the system, says Moric
Source: https://video.aktualne.cz/dvtv/neco-je-s-nami-spatne-jsme-fetaci-uspechu-jen-prebirame-syst/r~9d72cc28f24511e99ec9ac1f6b220ee8/

[60] Českobudějovický deník (newspaper): The former coach of Jaromir Jagr: Today's age creates target junkies—euro-punks, 2016. Source: https://ceskobudejovicky.denik.cz/hokej_region/byvaly-kouc-jaromira-jagra-tato-doba-vytvari-cilove-fetaky-eurospratky-20161215.html

[61] Kiyosaki, Robert T.: Escape the Rat Race: Learn How Money Works and Become a Rich Kid. Pragma 2015, or Kiyosaki, Robert B. – Rat Race. Source: https://www.youtube.com/watch?v=NHuix5ufBsQ

expected to drive a better car, so that higher income also brings along increased consumption and monthly expenses, and we then have to work even more to manage to pay for everything. And so on and on...

In fact, many parents don't even know their children, because they are always at work. We see addictions to computer games, phones and social networks, and old-fashioned face-to-face communication is being forgotten. Such parents then try to make up for their absence with expensive gifts for their kids or expensive holidays, but this does not improve the situation in the least. (Leaving out here the general consequences in the form of obesity in children and over-stressed adults.)

It is high time to deal with this issue! Otherwise, people will not only suffer mentally and in their family relationships, but also our living environment and the quality of our lives as such will deteriorate.

In addition to recognizing the needlessness of many of the things we acquire, it is also important to work to change the perception of debt in general, and to stigmatize living on debt to a certain degree. In our opinion, a similar process took place concerning the issue of smoking. At first it was the privilege of the highest classes, gradually it spread to the whole population, until the scales finally tipped, and today, cigarettes are mainly associated with the lowest social strata. Education, understanding the detrimental impact of smoking on our health, the high prices and perhaps even the ban on smoking in restaurants have helped.

Similarly, in society it should be *normal* to condemn living on debt rather than to support it. The principle of social consent, as described by Dan Ariely, works for both negative and for positive aspects. If the majority would approve of a debt-free life, this would also have an influence on the rest of society.

As in the case of smoking, we can also imagine creating awareness through education, by promoting the understanding of the perils of a life in debt, reducing the availability of credit and, last but not least, regulating advertising for loans (as it is also regulated in the case of alcohol).

Advertising for loans should not appear on the street, on social networks or in television ad slots. And especially not in such an amount and with such intensity as it is happening today. We have shown what manipulation techniques are used by advertisers and how proficient they have become at doing it, how the exposure effect works and that there is no wonder that people are constantly using more and more loans, credit cards and overdrafts. Especially when *everyone is doing it!*

Consumer loans for bridging the last few days before payday, for holidays or for Christmas gifts are simply wrong, and it is not desirable to create an impression otherwise!

Education goes hand in hand with school curricula. One should start at the youngest possible age. Our experience has shown that already children in kindergarten can understand that we have to pay for heating and food, and that when we don't have money in our piggy bank, we just cannot buy cotton candy at the fair.

However, it is important that financial literacy is taught in school in a consistent matter and by certified practitioners who have integrity, i.e. that in the best case they are actually living what they are advising. Unfortunately, it is a fact that in our country there are many bankers and financial advisors that are as financially illiterate and as trapped in credit cards, overdrafts and consumer loans as the rest of the population.

In collaboration with expert practitioners, a detailed curriculum should be developed for teaching financial literacy at all school levels with a clear methodology for financial education. It is possible to integrate financial topics into different subjects and thus provide additional space so that children can adopt proper and functioning patterns of financial behavior.

Ways should also be sought to increase the effectiveness of adult financial education. Educative repetition, creating groups on social networks where members can discuss, cultural and social educational events, general discussion etc.—all this can help. The media can provide examples of good and wrong behavior and help internalize the right patterns.

The clarity of the information transmitted is also essential. People are often confused about terminology, they feel like drowning in too much information, finance seems to them like an incredibly complicated field. Therefore, it is necessary to concentrate only on the most important issues and to ensure that communication stays as simple as possible. No things like *LTV, DTI, DSTI, fixation, domiciliation* or *indexing* should be part of the explanation.

On the other hand, issues concerning sound financial habits and the ability for long-term strategic planning should be promoted. From youngest age we should be getting used to consider how much and for what it is good and sustainable in the long term (safe) to spend money for. In the end effect it doesn't matter, whether we choose the method of dividing cash into different envelopes, use an Excel spreadsheet, an app in our phone or a more sophisticated software, like they are now often offered in our Internet banking. We can use the rule 10-20-30-40 described above, but also any other effective tool that will lead us to the same goal, i.e. to learn to think in context and to take into account that *life doesn't always have to be rosy*.

A regulation of lending, e.g. in the form of proof of purpose for all types of loans, as suggested by Mr. Hummel, is double-edged in our opinion. We have already mentioned above as an example what complications prohibiting the possibility of taking out a consumer loan for a car could mean for a novice entrepreneur. Excessive regulation could also cause some consumers to look for a solution to their difficult life situation in the gray economy, which would make their financial situation even worse.

Individual lenders should, however, be interested in lending only to persons who are highly likely to repay their obligations and thus they should consistently monitor and assess their clients' creditworthiness.

Debt relief on a national level is also debatable. Similar like Ms. Vášová, we believe that a significant portion of consumers do not learn from debt relief and that they will soon get themselves back into the same situation, and perhaps it will be even worse the next time. They will continue to rely solely on the government and they will excuse their dangerous behavior (since the government is considering debt relief as a normal thing). Creditors will continue to lose their money and borrowers will not learn to bear responsibility for their misconduct.

On the other hand, a crackdown on the practices of certain distrainment companies does make sense. People whose small debt has skyrocketed to astronomical heights due to delays and lack of communication from the side of the distrainor, should, in our view, be offered a helping hand.[62]

Helpful could also be a setting up of a network of quality financial advisors. Such consultants should be distinguishable at first glance from the others (associations, certificates, the need to pass some kind of financial "attestation" etc.).

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[62] See also Hábl, Radek: Czechs are getting out of the debt trap. The number of completed distrainment cases exceeds the number of new ones. 2019. Source: https://www.lidovky.cz/byznys/pravo-a-justice/cesi-se-dostavaji-z-dluhovych-pasti-pocet-skoncenych-exekuci-prevysuje-ty-zahajene.A190310_161626_ln_byznys_pravo_ssu

11. Conclusion

The aim of this study was to look at income and property differences in society, their causes, their consequences and possible solutions, as well as the aspect of poverty in our society. We have tried to look at the topic from different perspectives and to address also a broad context.

Each of the authors of this work has more than ten years of experience working directly with clients, plus one of the highest possible education attainable in the Czech Republic in financial consulting and planning: the prestigious and internationally recognized EFA certificate (European Financial Advisor).

For more than a decade we have been teaching people to think in a financially sound way, to choose the appropriate financial products for solving their needs and various life situations, and sometimes we also had to help to put out a fire that a client has caused with their rashness and unreasonable behavior. We are lecturers on financial literacy at primary and secondary schools, we organize lectures on financial topics for adults and we train other financial advisors. All this gave us a strong empirical foundation which served also as a base for this study.

Regarding income and property differences in society, we believe that we must accept the fact that differences exist and will exist—there is no need to fight it. Indeed, in history we see that differences have always existed. Differences are actually normal.

We all have different mental capacities and talents for different things, each of us enjoys something else and feels fulfilled by something else, and people are willing to work with various levels of engagement. Some people are happy when they can help others, and others again feel inspired to achieve things that were never done before. And everyone should reap what they sow.

If I am willing to study at the university, to spend five to six years of my life deepening my knowledge and skills that will ultimately enrich my whole society, if I have two jobs, instead of having a beer at the pub in the evening, if I spend my free time locked up with friends in a garage thinking up new breakthrough technologies, or if I work as self-employed twice as much as my colleagues, I should have the right to receive a higher financial reward than e.g. a person who, after completing compulsory schooling, goes doing auxiliary work on construction.

If I am a person who actively seeks job opportunities by myself, generates added value, is thinking strategically and invests my resources or even gives work to others, I should be able to get more money out of it than someone who after their eight hour shift just goes home to their family and their hobbies and has nothing else to worry about.

However, it is important to treat each other with respect and to recognize and reward people for a job well done —all people, rich or not. A director of a large company for making it possible for many people to earn income, feed their families and fulfill their dreams, a bus driver for driving our kids safe to school a cleaning lady for us having a tidy office in the morning. If everybody could just consider their own happiness and would stop needlessly comparing themselves with others, we believe that our whole society would live more happy lives. (And there would be definitely less loans and less distrainment.)

Poverty may of course be caused by external factors, but it is also largely a matter of choice. In our opinion, a nation with a solid social system provides enough possibilities for people to escape the poverty trap. The socially deprived receive many benefits, have the opportunity to attend costly retraining courses, to work on themselves and find a well-paid job, and at the labor office thousands of vacant jobs are being offered. As the saying goes, where there is a will, there is a way. However, one must start in time. Our experience shows that if one wants to change something, it can be done. But we also find confirmed that many people are comfortable with the status quo and simply do *not want* to change anything. They are happy sitting at home, receiving welfare benefits, they work illegally, and they *abuse* the system wherever they can.

The fact that some consciously choose to live on debt and buy things that they don't need, this is their own choice, also that they are "sticking their head in the sand" faced with their obligations for too long, not communicating and not seeking solutions—these are all *their* choices. Such people should get to feel the consequences of their actions strongly. Those who get into trouble by unfortunate circumstances are usually able to get out of it again. The reason is clear: they will do their utmost and do not just look where they can receive something for free.

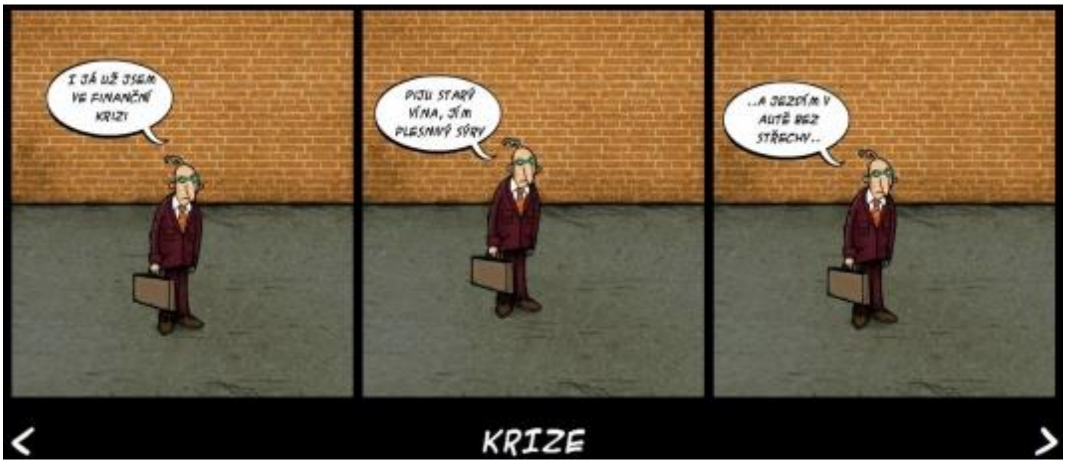
A tough financial situation in the family is especially hard for the children, but let's be honest to ourselves: As adults, do we think back with respect at teachers who were nice to us, didn't challenge us, but also didn't teach us anything, or those teachers who kept putting pressure on us, forcing us to practice routine examples, remember dates or foreign words, but who really moved us to a higher level? Even a child can receive inspiration from a difficult living situation in the family. They either discover that they shouldn't behave like their parents because it has serious consequences and they will never want to experience such things again, or they learn that whatever they do, however much money they spend and however much they indebt themselves, eventually someone will come along and pull them out of their misery.

And in closing we have a little piece of advice. Most people consider finances to be a very serious topic, and we usually tend to avoid serious topics. What if we humanize our family budget a little and made it a little bit more fun? The authors of this study found out that it is good to teach people to acquire, besides a savings account, also a "fun" account, intended exclusively for personal enjoyment.

Every month they are supposed to send a predetermined percentage of their income to this fun account, same like they do for all the other financial products in their portfolio, and then they are incited to spend the money from this fun account for something that gives them really joy. Not joy to the partner or the children. Joy to them! Some are having "fun" every month (they get a new book every month if they enjoy reading, or they go for a massage if they like relaxing etc.), some wait till there are more funds in the fun account and then they buy e.g. their dream e-bike. Without any guilty feelings. The essence of the fun account are its boundaries, the possibility to enjoy without regret, or to acquire something expensive without having to feel guilty that it happened at the expense of our family. There are actually many people who blame themselves for every Penny that they spend on themselves. Especially when the family budget is tight.

It is said that a sense of humor makes things go well. That's why, if debtors change their attitude towards finances, decide that they will be comfortable about finances, start using common sense and stop looking at what others think of them, we believe that many things will start changing in their life.

After all, money doesn't have to be a threat. Money can actually contribute to a happy life.



CRISIS

So, now even I am in financial crisis	*I am drinking old wine and I am eating moldy cheese*	*...and I am driving a car without a roof...*

Source: Partners Financial Services a.s., the project Den finanční gramotnosti (Financial Literacy Day)

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1. Authors

Mgr. Pavel Dohnal, EFA

Financial advisor, project manager and trainer at the headquarters of Partners Financial Services, a.s., financial literacy lecturer, coach. He graduated from the Faculty of Informatics and the Faculty of Education, Masaryk University in Brno. In 2011, he was one of the first nine people in the Czech Republic to take the exam to obtain a prestigious professional certificate for EFA Financial Advisers. He has been working in the field for more than 10 years.

Mgr. Ivan Procházka, EFA

Financial advisor with 13 years' experience in financial planning and financial consulting, trainer at Partners Financial Services, a.s. He graduated in sociology and social policy at the Faculty of Social Sciences of Charles University, with a master's degree in sociology. Since 2016 he has been EFA certified. In addition to the practice of a financial advisor, he is actively involved in social psychology.

Mgr. et Mgr. et Mgr. Alena Středová, EFA

Financial advisor, trainer at the headquarters of Partners Financial Services, a.s., financial literacy lecturer, translator, interpreter, teacher. She graduated in Czech studies, general linguistics, English studies and English teaching for secondary schools at the Faculty of Arts of Masaryk University in Brno. In 2011, it was one of the first nine people in the Czech Republic to receive a prestigious professional certificate for EFA financial advisors. He has been in finance for more than 10 years.