Why This Man Wants Babies to Get $100

The FAB Campaign might sound at first like a plan dreamed up by well-meaning but naïve social activists. The name stands for “Financial Access @ Birth,” and the idea is to make a $100 savings deposit on behalf of every child born. A look at the names of the plan’s founders, however, suggests there’s serious economics afoot; there’s a former finance minister of Mexico, a former chief economist of the International Monetary Fund and finance professors from the world’s best schools.

I recently spoke with Bhagwan Chowdhry, a founding member of the FAB Campaign who teaches corporate finance and microfinance (financial services for the poor) at UCLA, about the deceptively simple idea.

Jack Hough: What’s a FAB account?

Bhagwan Chowdhry: We have three billion people in the world who have no access to formal financial services. Almost half the world. The idea behind FAB is to put $100 in a savings account for each child at the time the birth certificate is created. One of the major ideas in economics is that incentives matter. If you offer $100, it will provide incentives for parents to create an identity for their children, which economists view as important to development. If we start at birth, in 20 years, all children and young adults will have access to financial services. Once you bring kids in, parents will have access by default.

Why do the poor need financial services?

When people don’t have access to financial services, even simple things like savings are impossible. When the poor give money to informal deposit collectors, they actually pay money for the right to save. They’re getting an astounding return of minus 30% in some cases. We know that a positive rate of return is important to saving, and that the poor need savings accounts. When we say three billion people in the world live on less than $2 a day, they don’t get $2 every day. The ability to save is hugely important for meeting daily needs.

How and when does the money become available to the account holder?

We’re thinking this will be integrated with electronic banking and perhaps mobile phones. Our idea is that the initial $100 deposit will be available after age 16. We want to minimize incentives for immediate consumption and fraud. The earnings on the money could be made available sooner. It could be used for things like basic health services.

Where will the money come from?

We want each country to have skin in the game, but you can’t expect poor countries to give all of the money themselves. We think each country should contribute based on their gross domestic product. Rich countries give more and poor countries give less. The effect is a transfer of aid from the rich to the poor.

How much would it cost?

There are two elements to the cost. The largest is the cost of the deposits: roughly $10 billion a year world-wide. That assumes the account is made a default option, and that parents may opt out if they wish, and that some wealthy parents opt out. Of the $10 billion a year, the U.S. would contribute $2 to $3 billion. We’re talking about one-fiftieth of one percent of GDP. Someone who is making $100,000 a year in effect would contribute $20. We're not necessarily talking about a new tax, but maybe a reprioritization of existing spending.

There are also transaction costs — the cost to set up the banking system. These have been falling world-wide. We think they stand now at 3% to 5% of the deposit amount as a one-time cost, and we think banks should eat this cost out of a sense of social responsibility in the short term, and as a way to create new customers in the long term. It’s smart for them.

What would the money be invested in?

Bank deposits, hopefully insured by local governments. The currency issue has been brought up. The question is, should it be in U.S. dollars or local currency? I tend to think local currency, but there’s not a simple answer. I think you can make arguments both ways. It might depend on the country. Local government might also want to offer matched savings as an incentive to savers. If the market rate is 3% or 4%, local governments might want to bring it up to 5%.

Is there any chance of adverse consequences? For example, in poor countries with high birth rates, might FAB accounts provide an incentive to have more children?

I think the answer is no. We’re providing incentives, not for high birth rates, but for making sure that children survive for 16 years. Evidence suggests that when survival rates for children rise, fertility rates fall. It’s an open question, though, and other people in this field might have different answers, but I don’t view it as a negative.

Any other possible adverse consequences you can think of?
Some people have asked whether a child worth $100 would be the subject of manipulation by adults. My question is, are these children better off without $100? We’ve seen evidence in the microfinance world that, when women are given the ability to borrow, they tend not to be exploited because of it, but to become empowered. Their social standing improves.

What's the fastest route to your idea becoming reality?

I think the best way is to demonstrate it. We should start with a country or two. I have two candidates: Mexico, which has the financial resources to fund FAB accounts internally, and a country in Africa, perhaps Rwanda, where the program would cost only about $30 million a year, and could perhaps be funded at first by private donors.

Do you think FAB will happen, and when?

I hope it will happen. We say let’s start on Nov. 11 next year—11/11/11. On our web site, FABcampaign.org, visitors can show support by signing a petition, and donors can get in touch.

1http://www.FABcampaign.org

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