



The Best of Intentions

The FEL investment contest winners turned out to be a Hollywood screenwriter's dream and a welcome respite from the tanking financial services industry, everyone was thrilled. Against all odds, the winning investment portfolio was registered by a class at Cesar Chavez Middle School in South Central Los Angeles. These gritty but tender and geeky ghetto youths struck a note of hope in an otherwise dismal time for bankers—13- and 14-year-olds who would rather sell you a collateralized debt obligation than steal your wallet.

By the end of 2008, all seven of the CEOs had been through hell—their firms had either collapsed or been sold at bargain-basement prices—and had endured a combined \$100 billion in losses. The CEOs took their lumps and severance payments, while several floors down the young members of the FEL Investment Committee cleaned out their desks.

Pain was everywhere. Like the middle car in a fiery, multiple-car pileup, the \$10 billion endowment of the Fund for Economic Literacy was first pinned, then torched, and finally annihilated. Fourteen of the 15-member FEL staff members were let go, leaving the associate director to pull together the promised banquet at the Waldorf Astoria, which was meant

to be as cheerful as possible under the circumstances.

Half the FEL trustees and two-thirds of the investment committee quit by the end of 2008, so the March 10 banquet was to be small—which the six surviving board and committee members agreed would allow the focus to be on the young finance students and their accomplishments.

As their final duty, the FEL volunteers told the Chavez middle schoolers that their prize would not be a check but subordinated debentures. Rather than spoil the celebration, the committee decided to present a blown-up mock check, along with an envelope explaining the “prize.”

The FEL volunteers “low keyed” the event, with modest chicken entrees combined with hope that few would notice the 50-plus assembled in a Midtown hotel meeting room. As luck would have it, a *Wall Street Journal* reporter was assigned to a new beat covering philanthropy and nonprofits.

Berenson made the presentation to Chavez team captain Ramon León. “Outperforming the market is always an achievement,” Berenson said as she presented the envelope. “But under these circumstances, it is a miracle. Clearly FEL’s curriculum should be mandatory

training for every financial professional in the world. Tell us, how did you do it?”

Fourteen-year-old León shrugged. “We really all owe Mr. Rodriguez a big thank-you,” he said. “He is our mathematics teacher. Teacher doesn’t know stocks, but he does know game theory. Mr. Rodriguez showed us how the rules didn’t say you could enter only one simulated portfolio. So we used a random-number generator to pick the stocks for about 121,000 scenarios of stock trades on your online system and picked one of the few that made any money.”

“So you didn’t use the FEL curriculum at all?” an incredulous Greenberg asked.

“No, the first unit never really worked online, so we just entered the contest as much as we could.” León replied.

The last-standing FEL trustees and investment committee members sank further into their chairs.

Still at the podium, Berenson shook her finger at Rodriguez, “Mr. Rodriguez, if your students are half as smart as you made them out to be, they don’t need any prize money—or maybe you can find a way to make what’s in this envelope worth something again. Good luck with that! The FEL board is transferring what’s left of the endowment to you and your students—maybe you can figure out if it’s worth anything.”

The five-foot-tall León looked less surprised than disgusted. “Are you kidding me? What’s wrong with you people?”

León surveyed the suits in the room. “Are you completely illiterate? You are the reason this country needs a planned economy!”

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Invisible Hand Crushes Fund for Economic Literacy

by Phil Anthrop

THE \$10 BILLION FUND FOR ECONOMIC Literacy (FEL) had one of the most distinguished beginnings in the history of U.S. nonprofit organizations.

On April 15, 2007, CEOs of seven of the largest U.S. financial institutions—American International Group Inc. (AIG), Bear Stearns, Citigroup, Countrywide Financial, Lehman Brothers, Merrill Lynch, and Washington Mutual—set aside their competitive instincts to give back to the community. As the giants of Wall Street signed FEL's charter for a permanent endowment to coach American middle-school students on the essentials of economics, the Mount Hope Community Center in the South Bronx buzzed with excitement.

"We have a duty to take what we know to invest in the future of this country," said Lehman Brothers CEO Richard S. Fuld. "We know the future of America is our youth. And when their generation takes over, they need to know how to make this economy work."

Countrywide Financial CEO Angelo R. Mozilo was one of the initiative's early supporters. "As the engine of the economy, the financial services industry has a unique opportunity to guarantee a perpetual source," he said. "We have created a \$10 billion fund to generate \$500 million a year in perpetuity: more

than 50 times what is now being spent to teach middle schoolers economics."

The Fund for Economic Literacy was the brainchild of AIG CEO Maurice R. Greenberg, who conceived of an online system for registering and logging putative stock portfolios and a complex online curriculum of webinars and mathematical models to teach economics to the nation's disadvantaged. "These kids' schools haven't a clue about how to teach this. That's where we come in."

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With a national retraining for middle-school teachers and a new incentive for high performers—including an eye-popping \$10 million annual prize for the best performing middle-school stock portfolio—FEL set out to remake economics education.

To handle its massive endowment, the Fund for Economic Literacy developed a high-profile investment committee of young investment bankers nominated by their CEOs—whose only objectives were to "be creative and make tons of money."

FEL reached its \$10 billion goal of pledges and gifts on August 25, 2007,

the day the Dow hit 13,380. The \$10 billion milestone was celebrated at a gala kickoff, and the \$10 million annual middle-school prize was first publicly announced—to be awarded for the first time on March 10, 2009.

"These things have to be big to attract attention," Fuld intoned. "This will get attention, alright—definitely the biggest prize out there for middle-school classrooms!"

At the peak of the mortgage production boom, Mozilo was effusive: "We know more about how the economy works than ever before. We need to take the expertise of 2007 and turn it into the wealth and genius of 2009!"

The first meeting of the FEL investment committee was an event in itself. It was held at the Hyatt Grand Champions Resort in Palm Springs. Every investment committee member was under 30 years old, highly leveraged, and had at least one \$10 million bonus under his belt—and thus well understood the power of incentives.

"If you want systems change, you have to change the rewards," said Marisa Berenson, 26. "I think young people today are better informed by all the social media around us and have learned quickly that money is what life is all about."

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