Developing financial consciousness reader
Beáta Kincsesné Vajda PhD
University of Szeged Faculty of Economics and Business Administration
Estimated reading time: 35 minutes

Economic socialization

Children need to go through several stages of learning in order to understand the concepts of the economic world, such as buying with money, banking, profits, or being rich or poor. Economic socialization is shaped by internal, external and social factors that. The socio-economic background and parental attitudes and behaviours, such as pocket money practices and the motives to give pocket money affect the effect of economic socialization.

You will read about…

- what economic socialization is
- stages of understanding different economic concepts
- the role of parents in economic socialization

The text is edited from excerpts from:

- Furnham, A. (2014): The New Psychology of Money. Routledge
- Furnham, A., Argyle, M. (1998): The Psychology of Money. Routledge
- Gudmunson, C. G., Ray, S. K., Xiao, J. J. (2016): Financial socialization. In: Xiao, J. J: (ed.): Handbook of Consumer Finance Research. Springer.
- Sevón, G., Weckström, S. (1989): The development of reasoning about economic events: a study of Finnish chindren. Journal of Economic Psychology 10, 495-514.

HUNGARIAN GOVERNMENT

European Union
European Social Fund

INVESTING IN YOUR FUTURE

SZÉCHENYI 2020

Economic socialization; children and the economic world

Financial socialization is a subset of general human socialization, defined as "**the way in which individuals are assisted in becoming members of one or more social groups**". Within socialization processes, more experienced members of the group help newer members incorporate the group's values, norms, rules, roles, and attitudes into their thinking and behavior. Recent theorizing and research among developmental scholars, however, indicates that **social novices are active in their own socialization** through reflection, selectivity in what they accept from socialization agents, and their attempts to socialize older group members.

Various social groups serve as contexts for financial socialization. These may include, but are not limited to family, peer groups, workplaces, educational institutions, religious organizations, racial and ethnic groups. **Developmental contexts such as life transitions, economic cycles, and social policy changes also play a role.**

Recent financial socialization research has devoted some attention to studying family interactions during the developmental stages of childhood and adolescence. However, there has been a much greater focus on gathering retrospective data from young adult populations, and especially college student populations about childhood financial experiences or interactions with their parents and connecting them to outcomes such as financial knowledge, behaviours, or attitudes. This line of research supports a common view of **financial socialization as a process that extends from childhood into early adulthood in which children develop consumer roles with the help of parents, teachers, friends, work experiences, and the media and follow the normative pattern of gaining financial independence from parents**. However, over the last several decades there has been a call to view financial socialization as a process that extends over the entire life course of individuals and families.

Children first learn that money is magical. It has the power to build and destroy and to do literally anything. Every need, every whim, every fantasy can be fulfilled by money. One can control and manipulate others with the power of money. It can be used to protect oneself totally like a potent amulet. Money can also heal both the body and the soul.

Children's **first contact with money (coins and notes and more recently credit cards) often happens at an early age** (watching parents buying or selling things, receiving pocket-money, etc.) but **this does not necessarily mean that they fully understand its meaning and significance although they use money themselves; therefore, the process is asymmetrical**. For very young child, giving money to a salesperson constitutes a mere ritual. They are not aware of the different values of coins and the purpose of change, let alone the origin of money, how it is stored or why people receive it for particular activities.

Sevon and Weckstrom characterised younger children's perception of the economy as from the viewpoint of **homo sociologicus** (driven by moral and social norms) and the one of older children more as of **homo economicus** (striving for personal hedonic satisfaction). Of three age groups, 8, 11 and 14, the youngest group when asked about the thinking and acting of economic agents felt the need to decide whether these agents would become happy or unhappy before thinking about why this was the case (e.g. 'The shoe retailer would be happy about the reduction in shoe prices because people can save their money…'). The answers of the younger children thus described moral rather than economic thinking. Some of the older children, however, saw the economy as more as an instrument and the action of the individual as led by the search for the opportunity to increase his or her own wealth.

Research on stages of understanding different economic concepts

There are a number of studies on the knowledge and reasoning of children concerning economic events on individual and state level. The studies describe children from different cultures, and Lea who had compared many of the studies from different cultures, concluded that these studies show a similarity between children in knowledge and understanding of economic phenomena at about the same age. The interpretative schemes of children vary with age. They are very fragmented in the beginning, then develop into subsystems which are understandable in isolation, possibly at the cost of some distortion. Later these subsystems are integrated and an overall picture is formed. The complexity of the cognitive structure is usually interpreted as a product of age-dependent abilities of egocentristic and abstract thinking, largely in accordance with Piaget's theory of the development of thought. There is a long and patchy history of research into development of economic ideas in children and adolescents.

Buying and paying

One of the most well-known early research on what children know about money comes from Berti and Bombi from the 1970's who interviewed 100 children from 3 to 8 years of age on where they thought that money came from. They singled out six stages:

- Stage 1: No awareness of payment and no recognition of money
- Stage 2: Obligatory payment – no distinction between different kinds of money, and money can buy anything
- Stage 3: Distinction between types of money – not all money is equivalent
- Stage 4: Realisation that money can be insufficient
- Stage 5: Strict correspondence between money and objects – correct amount has to be given
- Stage 6: Correct use of change.

Despite several similar studies there is a lot we do not know: for instance how socioeconomic or educational factors influence the understanding of money; when children understand how cheques or credit cards work and why there are different currencies.

There are a **number of prerequisites before children are able to understand buying and selling**. A child has to know about the function and origin of money, change, ownership, payment of wages to employees, shop expenses and shop owners' need for income/private money, which altogether prove the simple act of buying and selling to be rather complex.

Studies have shown that the **social context (country, economic system) clearly influences a person's understanding** because market economies afford more opportunities to understand issues.

Profit

Other researchers also found differences in understanding shop and factory profit. Only 7% of 11- to 12 year- olds understood profit in shops, yet 69% mentioned profit as a motive for starting a factory today, and 20% mentioned profit as an explanation for why factories had been started. Young children (6 to 8 years) seemed to have no grasp of any system and conceived of transactions as simply an observed ritual without further purpose. Older children (8 to 10 years) realised that the shop owner previously had to buy (pay for) the goods before he could sell them. Yet, they do not always understand that the money for this comes from the customers and that buying prices have to be lower than selling prices. They thus perceive of buying and selling as two unconnected systems. Not until the age of 10 to 11 are children able to integrate these two systems and understand the difference between buying and selling prices.

Banking

There has been a surprisingly large number of studies on children's understanding of the banking system, starting with Jahoda in 1981 who interviewed 32 subjects of ages 12, 14, and 16 about banks' profits. He asked whether one gets back more, less or the same as the original sum deposited and whether one has to pay back more, less or the same as the original sum borrowed. From this basis he drew up six categories:

- no knowledge of interest (get/pay back same amount)
- interest on deposits only (get back more; repay same amount as borrowed)
- interest on loans and deposits but more on deposit (deposit interest higher than loan interest)
- interest same on deposits and loans
- interest higher for loans (no evidence for understanding)
- interest more for loans – correctly understood.

Although most of these children had fully understood the concept of shop profit, many did not perceive the bank as a profit-making enterprise (only one quarter of the 14- and 16-year-olds understood bank profit). Ng later replicated the same study in Hong Kong and found the same developmental trend. The Chinese children were more precocious, showing a full understanding of the bank's profit at the age of 10. A later study in New Zealand by Ng in 1985 confirmed these additional two stages and proved the New Zealand children to "lag" behind Hong Kong by about two years. Ng attributed this to socioeconomic reality shaping (partly at least) socioeconomic understanding. This demonstrated that **developmental trends are not necessarily identical in different countries**.

A crucial factor seems to be the extent to which children are sheltered from, exposed to, or in how much they even take part in economic activities.

In Asian and some African countries quite young children are encouraged to help in shops, sometimes being allowed to "man" them on their own. These commercial experiences inevitably affect their general understanding of the economic world. This is yet another example of social factors rather than simply cognitive development affecting economic understanding.

At the end of the 1990's, Berti and Monaci set out to determine whether third grade (7- to 8-year-old) children could acquire a sophisticated idea about banking after 20 hours' teaching over a two-month period. It was a before and after study that taught concepts like deposits, loans, interests, etc. They concluded that while the notion of shopkeepers' profit was successfully taught to third graders who already possessed the prerequisite arithmetic skills in only one lesson, in the present study it took 20 hours to teach the notion of banking at the same school level.

Poverty and wealth

Why are some people rich and others poor? There have been over 20 studies on the young, which tend to show that there are typically three types of explanations for poverty:

- **voluntaristic/individualistic**, suggesting it is the person's choice;
- **structural/societal**, suggesting that it is caused by social factors;
- **fatalistic/chance**, suggesting that fate is the main cause.

This, of course, raises the question of what the definition of poverty is. The results showed that **all sorts of factors, like a young person's age, education, gender**

and culture all influenced their beliefs. Through many researches it is shown that socioeconomic concepts shape the speed of acquisition of economic concepts. This is particularly the case of wealth and poverty that is often featured in children's storybooks.

Saving

Parents are often very eager to encourage their children to save. Children's behaviour and understanding of saving, like all economic behaviour, are **constructed within the social group and are fulfilled by particular individuals aided by institutional (particularly school) and other social factors and facilities**. There have been comparatively few studies on children's saving.

Children have to learn that there are constraints on spending and that money spent cannot be re-spent until more is acquired. Thus, all purchases are decisions against different types of goods; different goods within the same category; and even between spending and not spending.

In a series of methodologically diverse and highly imaginative experimental studies, Sonuga-Barke and Webley in the 1990's found that children recognise that saving is an effective form of money management. They **realise that putting money in the bank can form both defensive and productive functions**. However, parents/banks/ building societies don't seem very interested in teaching children about the functional significance of money. Yet **young children valued saving because it seemed socially approved and rewarded**. Saving is seen and understood as a legitimate and valuable behaviour, not as an economic function. However, **as they get older they appear to see the practical advantage in saving**. Some countries, like Japan, show a high rate of personal saving compared to others. The welfare state, the inter-generational transfer of money and the inability to postpone gratification have all been suggested as reasons for poor saving in Britain. There remains a good deal of research to be done to establish when, how and why adult saving habits are established in childhood and adolescence.

The role of parents in acquiring money beliefs and behaviours

The work of Webley and Nyhus who used Dutch data found that **parental behaviour, like discussing financial matters, as well as their own values, did have a predictable but weak impact on their children's later behaviour**. Clearly many factors impact on a person's money beliefs and behaviours. Children are economic agents and do have an autonomous economic world, sometimes called the playground economy. They swap and trade "goods" of value to them, a practice sometimes discouraged by schools and parents. These researchers believe that by adolescence, children's understanding of economic situations is "broadly comparable" to that of adults.

Studies have examined and found evidence of **sex differences in how young people are socialised with respect to money and their resultant attitudes**. Even in gender-sensitive countries like Norway, researchers have found that girls and boys have divergent preferences and spending patterns. The **role of parents is crucial in the understanding and consumption patterns of their children**. How family members keep, use, and discuss money is not a minor issue. Money is a tool for well-being, for it enables the purchasing of commodities to satisfy individual needs. It is up to the adults of the family to choose the best practice in managing their income and expenditures. This is a matter of financial capability: there is no single model of behaviour, but each family has to find the way that is the most appropriate for it.

Careful money management is certainly a good way to avoid quarrels. It is therefore extremely important, especially in blended families, to pay attention to money management. That requires various capabilities of the family members. Well-informed and financially capable adults are able to make good decisions for their families and to thereby increase their economic security and well-being.

Parental modelling and direct teaching about money can have both positive and negative consequences. In a research, three "socialisation pathways" were found leading to different money management outcomes:

- One outcome could be characterised as positive and effective; students who observed that their parents saved and managed their money taught them the importance of saving and money management.
- Another ultimately effective pathway could be characterised as negative; students observed negative ramifications of their parents’ inability to save or manage their money. Contrary to what we might expect, this negative model resulted in students’ resolve to not repeat their parents’ mistakes.
- A third pathway also started out with negative saving or management modelling, but the outcome was also negative; like their parents, students were currently neither saving or managing well.

Many studies have looked at the intergenerational transmission of consumer attitudes, behaviours and values. Family structure and climate impact directly on children’s consumerism. That is, **the quality of a child/adolescent’s relationship with their parent is primarily related to their money management practices**.

Research results also confirmed that **low parental involvement was significantly associated with poor money management**. However, that association was weaker if the young person experienced family disruption. It is concluded that familial climate appears to be uniquely important in a wide range of adolescent behaviours.

What **motivates parents to give money to their children**? In a typical economic analysis Barnet-Verzat and Wolff in 2002 considered three theoretically based hypotheses for this intergenerational transfer of money:

- altruism (parents derive satisfaction from the level of well being of their children; financial transfers are aimed at bringing together both parents and children's standards of living and the various children's ones)
- exchange (a positive interaction between money transfers and services provided by the child is expected)
- preference shaping (acknowledging the importance of parental attitudes towards their children's future choices, parents try to anticipate their probable impact, and rationally adjust their transfer behavior).

We know that **parents who emphasise prosocial and general altruistic values tend to give more money and try more often to meet the perceived needs of their children**. But this can also be seen as a salary in exchange for the completion of household tasks. It is also used to shape behaviour such as when money is given for school grades attained. In their empirical research, these authors attempted to test the various hypotheses. However, they did recognise two problems. The first was that **parents often have multiple motives** – not just one single, primary motive. The second is that the exchange hypothesis may equally be difficult to test because reciprocities both immediate and delayed are often rather difficult to detect. They argued that one could simply ask the question of parents themselves but that motivational data is best seen in actual behaviour. Their careful econometric analysis showed that everything depends not on the size of the transfer but its regularity. Regular payments look more like exchange (the buying of children's services) while irregular payments are more like altruistic gifts. Family size as well as age, education and income of the family were systematically and logically related to pocket money motives:

- Richer parents gave more one-off gifts.
- Parents with more education and more professional jobs were more punctual and regular in their giving.
- Parents are more likely to buy their children's help/labour as the size of their family increases.
- Richer parents with fewer children are more likely to use pocket money to reward school results.

Clearly, family size is an important variable because it directly affects parents' costs, but there are also issues around fairness and ensuring children all get treated equally. What is particularly interesting about studies such as this is that they examine what parents actually do as opposed to what they say they do. Some parents feel pressured to start pocket money systems; others seize it as an excellent educational opportunity. Clearly their **ideas and motives are complex**. Further, they are inevitably constrained by various economic and social factors from doing what they might like to do. Many have observed that children who have, and get, everything they want neither understand money nor respect those who gave it to them. Parents, it is argued, can set up for themselves potential time bombs in the way they socialise their children.

Parents attempt to educate their children about money by providing a good example and instruction. But most of all they develop allowance or pocket money systems that they believe will teach their children important lessons with regard to pocket money. It is a well-researched topic and there are many books for parents that provide suggestions and rules that are supposedly beneficial. Parents have many motives when setting up and putting into practice their pocket-money allowance system. They use it as an incentive to do things, to demonstrate their altruism, and also to try to shape their children's preferences.

After reading this reader and watching the video lesson, you can quickly **test yourself** at **https://create.kahoot.it/share/64c7b36b-f2c2-4026-820b-79b43109b6a7**

This teaching material has been made at the University of Szeged, and supported by the European Union. Project identity number: EFOP-3.4.3-16-2016-00014