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Nate Lewis
St. John Fisher University, nml06596@sjfc.edu

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Abstract

Financial literacy refers to the ability to process and utilize economic information to make informed decisions for their wellbeing. Given concerning indicators of financial outcomes within the United States, it is crucial to understand how and when strong financial behavior is developed. Efforts to enhance financial education have explored incorporating financial concepts into children's literature and games. Yet, research indicates that financial literacy is far more rooted in the habits learned from one's family, despite the emphasis often placed on schooling and socioeconomic status. It is therefore evident that efforts to promote financial literacy must always involve empowering family members to serve as strong financial role models.

Keywords

financial literacy, financial knowledge, personal finance, financial education, childhood, habits, socialization, parenting, money, schooling, learning, inequality, poverty cycle, American Dream, intergenerational

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Money Doesn't Grow on Trees: How Financial Literacy Is Learned and Developed Within American Childhood

Introduction

Very early in their lives, American children learn about the idea of the American Dream, either through schooling or their family, if not both. This concept baked into the American psyche asserts that the freedoms and free markets in the United States provide all individuals with the opportunity to prosper and be successful through merit. It often forms the backbone of many individuals' desires to work hard and make a good living for themselves and their families. However, for this American "truth" to ring true, Americans must have the right financial knowledge and tools at their disposable; these collectively can be packaged under the idea of "financial literacy".

Financial literacy is a crucial aspect of one's wellbeing in society, with this skill typically being defined as "peoples' ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions" (Lusardi & Mitchell, 2013, p. 6). The ability to understand and apply financial concepts, intuitively, plays a large role in one's financial standing throughout life. Therefore, to truly grasp the financial literacy levels within the United States, it is crucial to start at where this skill takes root: childhood. Understanding the link between the development of financial literacy during childhood and financial wellbeing later in life becomes more important given the shortfalls in financial outcomes within America. America suffers from a large failure in terms of financial socialization and education, which lead American adults to incorporate ineffective habits and apply misleading knowledge with their personal finances. In fact, one study indicated that less than a third of Americans could successfully answer three standard financial literacy questions (Grohmann et al., 2015). It is very clear that there is a discrepancy between the idea and the reality of the economic portion of the "American Dream". From a public policy and academic perspective, the roots of these concerning outcomes can be traced back to childhood. Although schooling and experience with money are relevant, the evidence is clear that financial literacy is primarily driven by the habits acquired from family members starting early on in childhood.

Financial Behavior in the United States

Before diving into the financial behavior of individuals within the United States, it is crucial to understand the "game in which they play". The American economy, from the lens of the statistics, fails in terms of financial behavior. All in all, Americans are "poor savers, major debtors, and ravenous consumers, relative to other highly developed countries" (Cohen, 2016). There are two proposed schools of thought for these results. One side, as promoted by Jennifer Ann Hill in her article "Endangered Childhoods: How Consumerism is Impacting Child and Youth Identity" (2011), argues that large corporations and media organizations promote a culture in which children are boiled down to their ability to be good consumers. These corporations are painted as malevolent forces pushing children to purchase and consume to the point of materialism, which Hill labels as a "'risk' factor in contemporary society

because it makes individuals vulnerable to excessive, dysfunctional consumer behavior such as compulsive buying" (Hill, 2011). This is reinforced by the explosion of Internet communication within the 21st century, which has radically increased the influence on online marketing from large corporations. As the Internet ballooned in popularity and usage, so did its impact on the behavior of Americans. Overall, younger, and younger generations are quickly adapting to become skilled online consumers, with "children starting to use the Internet at an average age of three years old" (Thaichon, 2017). Critics across the board are quick to shift blame onto large corporations and mass media for creating irresponsible spenders, painting the typical American consumer as a "zombie" of corporations.

However, not all researchers take the same stance on American culture and its relationship with consumerism. Occupying a contrarian stance, Joseph N. Cohen uses his paper "The Myth of America's 'Culture of Consumerism'" (2016, p. 533) to argue that the true root of overspending results from a government policy failure, in which consumers are forced to shoulder an increasingly larger financial burden from essential goods. Take college education: many individuals and families see higher education and a college degree as the only means to escape financial hardship. Yet, there is a clear trend of "tuition increases that have far outpaced growth in student grants" (Chen & Wiederspan, 2014, p. 591), with this growing financial burden most heavily impacting low-income families that depend on government grants to attend expensive institutions. On top of this, despite gains in productivity, the real wages of lower-income American workers have not kept pace (Mishel et al., 2015). In fact, the last time the minimum hourly wage was adjusted federally was in 2009 and it has stayed at $7.25 since, even despite the prolonged high inflation resulting from the economic conditions of the COVID-19 pandemic. To put that in context using a common household purchase: the cost of a dozen eggs more than tripled from $1.44 in July 2010 to $4.82 in January 2023 (U.S. Bureau of Labor Statistics, 2023) and yet, the minimum wage did not budge a single dollar. All in all, the personal finances of Americans have begun to look increasingly worrying in the past few decades, with political and social commentators quick to pass blame onto large corporations, slow government action, or the individuals themselves. Regardless of the root cause, there are cracks in Americans' personal finances that demand a closer look at how the country can usher in improvements to financial literacy and outcomes.

Impact of Financial Socialization from Family Members

Knowing that all habits begin very early in life, the first source of socialization in childhood is very apparent: parents. Parents are often the first source of information and advice for children; therefore, it comes as no surprise that children begin developing financial attitudes and behavior through their relationship with their parents, a pattern reinforced throughout various studies on childhood financial literacy. One study from University of Verona economic researchers Alessandro Bucciol and Marcella Veronesi titled "Teaching Children to Save: What Is the Best Strategy for Lifetime Savings?" (2014) utilized an econometric model to determine factors that influenced household savings. The researchers asserted as part of their research that although parenting, education, and work all contribute to financial behavior, the evidence indicates that "the role played by parents is substantially larger than the role played by work and high school education taken together" (Bucciol & Veronesi, 2014, p. 4). Furthermore, another study entitled "Childhood Roots of Financial Literacy" aimed to explain financial literacy levels based on three major agents of financial socialization: family, school,

and work (Grohmann et al., 2015). The team of researchers found evidence that socialization by parents is more effective at influencing financial knowledge than high school classes and early experience with money. These results have been recreated and reproduced in countless financial literacy studies. Therefore, when educators argue that subpar financial knowledge in children is a failure of schooling, they ignore that financial socialization starts far before the classroom, as parents influence their children's financial attitudes, knowledge, and behavior from a young age (Brown & Ferguson, 2017). Overall, the evidence is clear: teaching children effective financial literacy must start with the parents.

Yet, financial experiences with parents come in all different shapes and forms. What does it mean for parents to teach financial literacy to children? What does it look like? Broadly speaking, this type of socialization can be broken down into two categories. The first category, explicit teaching, is generally the one most envisioned and refers to parents having open conversations with children about financial concepts (Bucciol & Veronesi, 2014). However, the other category that is often not considered is implicit socialization, which occurs when parents act as financial role models for their children. Although both play a role, research shows that explicit parent-child socialization helps develop better financial behavior than implicit socialization in the form of parental social status (Sansone, Rossi, & Fornero, 2019).

Explicit financial socialization from parents by itself is merely a broad label and can be experienced differently depending on child's experiences and relationship with parents growing up. When determining what falls under the label of "explicit socialization", it is crucial to understand that this type of interaction must be purposive and include intentional efforts to teach the family about finances (LeBaron et al., 2020). In the article "Can We Talk About Money? Financial Socialization Through Parent-Child Financial Discussion", a team of researchers aimed to better understand these intentional efforts at financial socialization by conducting more than 100 interviews involving emerging adults, parents, and grandparents. These interviews focused on identifying socialization and discussion themes seen across different childhood experiences. One category highlighted was child-initiated discussions, in which a child proposes a question about money to their parents and it is utilized as an opportunity to provide helpful advice or pass along financial knowledge. In this case, children can convert their financial desires and goals into a financial socialization opportunity that allows for better personal finances. However, they also identified that financial socialization from parents can also be exhibited more commonly in parent-initiated discussions. Parents often share with children about financial lessons they have learned or allow children to participate in financial decisions to begin developing their financial knowledge and independence. This becomes even more impactful when parents are open about their financial experiences, particularly about financial instability and mistakes, which allows children to have a genuine learning experience. However, there is an important caveat to address when one looks optimistically upon the benefits of parent socialization on financial concepts. It is not just financial instruction by itself that is effective; *informed* financial instruction from parents is a powerful under-looked aspect of good financial literacy. Depending on how financial literate a child's parents are, financial discussions can either reflect positively with children tapping into critical thinking of personal finances or negatively if parents fail to teach in the first place or provide accurate answers. Furthermore, literature focusing on financial socialization primarily investigates habits and lessons passed on from "parents". However, not all children are raised by their parents; a large population exists of those who grew up in non-traditional

households, raised by other family members or caregivers. Investigating the impact of financial socialization in these non-traditional households would be a promising area for future research.

Impact of Financial Education and Hands-On Experience

In the quest of understanding how children develop financial literacy, another question enters the fray: in lieu of well-informed teaching from parents, what tools can allow children to develop the financial skills they need? Although it is not as influential as parental teaching, educational institutions can often fill the gap and play a role in childhood financial literacy. Research indicates that there is mixed evidence of the effectiveness of financial courses on improving long-term financial literacy. However, as asserted by the researchers that penned "Childhood Roots of Financial Literacy" (2015), schooling may influence financial literacy indirectly by increasing numeracy, which in turns forms the backbone of financial literacy. Furthermore, evidence suggests that a personalized exposure to education on financial decision-making may improve financial outcomes (Bucciol & Veronesi, 2014). This may explain why overall, financial courses have mixed effectiveness, but certain courses perform better than others. Many individuals have different financial literacy and knowledge strengths, and a one-size-fits-all approach to financial literacy may not be fine-tuned enough to make lasting changes. Personalized courses allow educators to target individuals based on their financial literacy gaps. Yet, even if these education opportunities do offer marginal improvements in financial literacy, children are all too often prevented from taking advantage due to the lag between when school begins in early childhood and when economic and financial courses are first offered. Overall, financial education often does not begin until high school, but it is generally considered "too little, too late" by then (Brown & Ferguson, 2017).

As educators look to adapt schooling to better include lessons on financial literacy for younger generations, the greatest obstacle is design. One concept that has received attention over the years is incorporating artifacts of American culture into how children learn about financial literacy. One study entitled "Teaching Financial Literacy with Max and Ruby" (Brown & Ferguson, 2017) identified children's books about Max and Ruby as a potentially effective vehicle for teaching children about money. Although multiple Max and Ruby books touch on specific elements of financial literacy, the researchers illustrated that one specific book - "Bunny Money" - touched on many important aspects of money. Using plot elements from the book, the researchers were able to design lessons that tapped into the economic concepts of scarcity, exchange, money, saving, and giving. For example, Ruby setting aside money for a purchasing goal can be used to demonstrate saving. Another example cited by the researchers is the plot point that Ruby was able to buy bluebird earrings, but not a music box with skating ballerinas, because of differing costs; this can be used to illustrate the difference in value between different goods and the concept of scarcity within transactions. It is quite clear and understandable that using children's books as an educational tool can be a helpful vehicle to explain financial literacy to children in a language they understand.

Given their clear educational value and keeping in mind the importance of using parents as active conduits for children to learn about financial literacy, children books can serve as a useful tool to improve the financial outcomes of America's children from within the household. Countless books either implicitly or explicitly dive into common financial situations, such as choosing whether to save and spend money or taking advantage of unique opportunities to

boost your economic safety. Therefore, providing children with the motivation to actively read these books and reflect upon them can yield massive benefits. As the evidence shows, conversations between children and their parents are a powerful avenue for financial literacy and books can be utilized as tools to spur such conversations. By using conversations about children's books to explain financial concepts and build up a child's ability to reflect upon financial decisions, parents can effectively begin the financial socialization process in a language that children understand. In the same way that schooling indirectly improves financial literacy by providing children with numeracy skills, reflecting on books may indirectly improve financial literacy by giving children an opportunity to understand and rationalize decisions about money from different perspectives.

Another popular aspect of childhood is boardgames; a popular board game such as Monopoly gives educators another vehicle to teach children about financial literacy in a mode they understand. In the article "Deficit Crisis Simulation: Using Monopoly to Teach About the Deficit Debate", author Cory Wright-Maley (2018) highlights the role Monopoly can play as a simulation game that educates players about complex financial topics. According to Wright-Maley, simulations are effective educational tools in that they can "increase students' interest in subject matter and motivation to engage in curriculum" and offer a laundry list of positive benefits in terms of engagement with the economic concepts at hand (Wright-Maley, 2018, p. 90). Although this paper adjusts the rules to provide players with an educational experience about deficit debate, Monopoly has been a popular game for addressing countless economic and financial concepts over the last century, includes variations focused on runaway inflation, inequality, and accounting principles.

Aside from high-level economic concepts, even very elementary concepts can be shown through the course of a game of Monopoly. For example, take the importance of cash: players start out with an equal amount of cash when they start the game. Depending on their strategy and risk aversion, some players will take riskier decisions with their money. If a player is too liberal with their spending, they may run into a situation in which they do not have enough cash on hand to pay another player or a fine, meaning that the player will have to start selling properties at a deep discount. This reinforces financial responsibility by showing that spending more may yield benefits, but it also increases financial risk. Another topic illustrated through the game is the idea of diversification. Instead of spending the entire game building up one property, players are served better by establishing a collection – or a monopoly - of many properties across the board, reducing the risk of putting all your eggs in one basket. This creates an important learning opportunity, showing that putting all your savings in one account or investment can be risky, as one bad event can wipe out everything. Even if Monopoly is not teaching children how complex mortgage-backed securities or derivatives work, it does allow them to begin reflecting upon how they make and justify financial decisions. Given the proven benefits of playing Monopoly, a family game night can be seen as more than just a fun way to spend time with the family; it can also serve as a valuable method of financial socialization.

In her study "Financial Literacy in the Ohio K-2 Classroom", Lindsay Gold (2022) can address this question of design from a different angle utilizing her background in education and analysis of Ohio teacher sentiments. Throughout her study, Gold stresses that teachers may find more success by building financial literacy into various areas of the curriculum in ways that children understand. For example, one idea that she promotes is that "having the students

manipulate 'real' money in life-like situations gives them the opportunity not only to learn about financial literacy, but also to experience it firsthand" (Gold, 2022, p. 733) - a clear illustration of the idea of "show, don't tell". Beyond the fact that this concept makes intuitive sense, her recommendation also finds support in literature about financial literacy. One study conducted by a trio of researchers titled "'Four Bright Coins Shining at Me': Financial Education in Childhood, Financial Confidence in Adulthood" analyzed the relationship between receiving an allowance in childhood and financial attitudes later in life (Sansone, Rossi, & Fornero, 2019). Encouragingly, the trio found there is "robust evidence of a positive relation between (regularly) receiving pocket money during childhood on the level of (self-assessed knowledge) in financial knowledge in adulthood" (Sansone et al., 2019, p. 19). This highlights an important feature of financial education, which is that it must do more than merely provide children with financial knowledge and ability to make financial plans; financial education must also give children the ability to begin developing life-long financial habits.

Ideally, this would be reinforced within the household, as the research is clear that parents play an important role in their children's financial outcomes and these outcomes are dependent on the parents being active and purposeful role models. The research implies that parents should provide children with an allowance, whether it is earned for getting chores done and just provided on a weekly or monthly basis. From here, children should be given the opportunity and resources to learn how to effectively manage what they would like to do with their pocket money. In my own childhood, I never had a provided allowance, but my father was insistent on us using the money we earned to make small purchases. He kept a small notepad as a "ledger" and every time we completed a chore or got birthday money, he would add money to our balance. Then, when I wanted to purchase something, he would pull out the ledger to see if I had any money and I would be able to decide about the purchase based on my balance and how much I valued what I wanted. This crucial childhood experience gave me the opportunity to manage my money effectively and to understand the value of money from an early age. Overall, the evidence, both empirically and anecdotally, from childhood experiences are clear that giving children hands-on experience with money is not only helpful, but also crucial, for allowing children to develop life-long financial knowledge and wellbeing.

Impact of Socioeconomic Background

However, the benefits associated with providing children with pocket change extend into a larger conversation of wealth inequality within America. In terms of ability to provide children with an allowance, some families may not have the financial means to provide their children with this opportunity. Certainly, having parents of a poor economic background is also linked to other forms of negative outcomes for children aside from inability to learn from experiences with an allowance. As the authors of one study bluntly argue, "if high-income families are more likely [than their low-income counterparts] to help their children to acquire basic knowledge and to form good habits, this could enhance inequality" (Sansone et al., 2019, p. 4). Surprisingly, the empirical evidence provides a contrarian view. One study indicated that unlike having good financial socialization from parents and schooling, being of a poor economic background is not correlated with financial literacy (Grohmann et al., 2015). Furthermore, another study with researchers from the University of Wisconsin and the Federal Reserve Bank of Richmond (2015) looked at the correlation between a parent's credit scores and their children's future credit

outcomes. Based on their data, they were able to reach a conclusion that “intergenerational linkages [in credit scores] are the result of household heterogeneity rather than parental credit market conditions directly affecting the credit outcomes of children” (Ghent & Kudlyak, 2015, p. 20). This reinforces the notion that it is not such much income levels that are passed down from parent to child, but rather financial habits. Therefore, there is some evidence that the “poverty cycle” – the observed phenomenon of families becoming stuck in low income for many generations - is caused by the reinforcement of bad financial habits, instead of just the low-income levels by themselves. Although this may seem puzzling, it may also be an optimistic indication of upward mobility in the United States as it suggests that children have an opportunity to break out of household poverty by merely adopting better financial knowledge and habits. On the other hand, it also means that ensuring good financial literacy and habits are created and reinforced is much more crucial for low-income families to improve their economic status, at least compared to their wealthier counterparts.

Conclusion

Indications of upward mobility in the United States are promising, given that the idea of the “American Dream” is baked into the American psyche from a young age. Although it is generally a broad idea, one tenant of this concept is the ability to succeed regardless of the economic circumstances in which one is born. In his article ‘Income Inequality, Equality of Opportunity, and Intergenerational Mobility”, Miles Corak (2017) set out to better understand the empirical evidence of upward mobility. Promisingly, his research indicates that Americans have twice as much income elasticity as Canadians, meaning that Americans see more economic mobility and change between generations than their Canadian counterparts. However, he also demonstrates that this opportunity is not felt equally by all Americans, providing evidence that the United States struggles with lower levels of upward mobility within the nation’s least economically advantaged populations. It seems that the populations that would benefit from upward mobility the most are the same that experience it the least. This concern intuitively leads one to ask how these populations can gain the tools and resources to better their upward mobility. Many point to a need for better financial literacy programs in schools and the community or even giving children an allowance; however, this does not identify the true root cause of low financial literacy. The evidence is clear that financial literacy starts at home, far before a child enters the classroom or begins their first job. The habits and attitudes of a child’s parents play a crucial role in a child’s financial outcomes as they grow up. In fact, there is strong argument in favor of the idea that the best investment in American financial literacy is the nonmonetary investments that develop financial behavior, motivation, and aspirations of American children (Corak, 2017). Once one understands that effective financial socialization from the family is critical for improved financial outcomes, the focus can be turned onto providing children with the tools they need to succeed. Not only is it crucial for them, but it is also vital to ensure the longevity of the American Dream across economic classes.

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