Money Makes the World go Around: European Youth and Financial Socialisation

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Abstract : This paper outlines the findings of a consumer survey conducted in 1996 and 2001 by the University of Bonn, Germany, across 15 European countries. The survey involved a sample of 3,300 respondents in 1996 and around 11,000 respondents in 2001, throughout all 15 EU countries. Children and adolescents between the ages of 10 and 17 were surveyed on their consumption habits and their attitudes towards the environment. The paper outlines the key findings on "the process of socialisation with money".

Children come to appreciate the importance of money even before their first day at school. Even young children know you sometimes need cash to fulfil dreams. But the chance to experiment with money for real only comes when children first receive pocket money, usually from their parents. Later, in adolescence, consumer pressure starts to make an impact and it becomes more difficult to make ends meet. Spare time or holiday jobs help top up pocket money and enable adolescents to keep out of debt. This paper reports on a long term comparative study throughout the European Union among children and adolescents, analysed by country, age group and gender. The paper discusses the places young consumers can turn to in trying to fulfil their growing consumer needs. It also examines how much money is at their disposal. It then concludes by considering the influence of "financial socialisation" on how young people deal with money.

Key Words : Financial socialisation in the European Union, Amount of Pocket Money, Additional Sources of Income, Gifts(Money), Saving money, Borrowing money

I. Introduction

If you have money, you need to know how to spend it and how to budget. Inevitably you will make mistakes here and there, but these mistakes are something you can learn from, as identified by the development specialist Ute Neumann as long ago as the 1950s: "Money also has something to do with power, security and recognition, being accepted and feeling free. The benefit of pocket money lies not only in the familiarisation process with this means of payment in our society. The core benefit lies in experiencing personal freedom."(Neumann 1954, p 3) Of course children can only benefit from this new-found personal freedom if they are given leeway to decide for themselves what to do with their money. But

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teaching children how to deal with money only has long term benefits if it goes beyond the simple familiarisation process. The learning process should aim to introduce them to the next stages in their life - when, for the first time, they will gain material independence (cf Kruger 1982, p 7f).

II. Methods

1. Research format

This study is based on a quantitative survey conducted throughout the European Union. The overall aim of the study was to confirm a number of contextual and individual hypotheses. It was therefore carried out on a multi-level as well as an individual basis.

Data used to analyse findings comes from a long-term survey. To gather data, trend models were applied involving two measurements with a five year gap in between. The same variables were used on both occasions, with different respondents. In addition, as the age of respondents ranged from 10 to 17, both samples were based on a cohort design, using age cohorts from 1979 to 1986 (1996) and 1984 to 1991 (2001).

Data from the survey is thus almost exclusively time series data. This is because measurements were made using identical variables to those used 5 years earlier only with a different sample of respondents (cf Diekmann 1996, p 266ff).

2. Sample recruitment

The overall sample population included all 10 to 17 year-old children and adolescents in full-time education. This sample population encompassed all 15 countries of the European Union.

As a basis for the study, we wrote to the same schools we addressed in the 1996 European survey. We then added addresses provided by diplomatic agencies, UNESCO, consumer bodies and some from internet sources. With the exception of Luxembourg and Portugal, we wrote to between 50 and 100 schools in almost every country, with a representative spread across each region.

One of the key issues in conducting studies is how representative the sample will be. This generally depends on how successfully a random sample or quota sample manages to reflect numbers in the overall population. As the main aim of this study was to confirm the hypothesis that different phenomena were linked, there was no point in taking a so-called representative sample. Our most important task in carrying out the survey was therefore to make sure that the data we gathered was sufficiently robust (cf also Diekmann 1995, p 368f).

3. Design of survey materials

The study was conducted on the basis of a standardised questionnaire designed to look like a brochure. The questionnaire contained 26 closed questions translated into each native language. It was kept relatively short to avoid respondent fatigue and enable children and adolescents to complete the survey in the course of one lesson so as not to take up too much teaching time. The highly standardised approach to questioning was adopted for two reasons: first, we had to minimise inaccuracies caused by language differences - all too common with open questions. Second, we felt respondents would fake fewer answers if the survey was carried out in a classroom by a fieldworker rather than outside school in an interview situation. Last, this survey method was attractive for cost reasons.

Given that the sample population encompassed a broad range of different education levels and cultures, we deliberately formulated the questions in simple, clear language.

III. Results and Discussion

1. Pocket money

People started thinking about the use and point of giving children pocket money as early as the 1950s (cf Neumann 1954, p 1). The primary focus was on developmental factors such as the fact that it gives children a tangible opportunity to learn how to deal with their own possessions. Their experiences are also part and parcel of an overall education into consumer issues. Children learn at an early age that money can be used as a bartering tool. It does not matter whether they come to this realisation by watching other people or by learning for themselves through having their own money to spend, but they only really start to understand money properly when they first receive regular pocket money.

Even the statute books deal with the issue under the so-called "pocket money section": If a minor enters into a purchase agreement and pays with pocket money, the contract is binding even if their guardian is opposed to the purchase (Paragraph 110 of the German Civil Code).

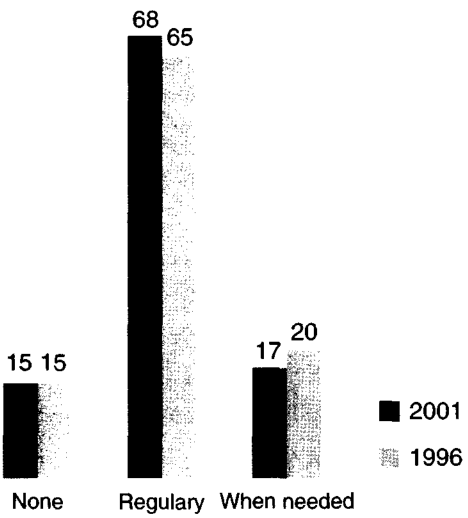
It is not rare for parents to tell children in part or totally how to use their pocket money - and to check up on it afterwards. There are instances where parents insist on their children saving money, or as they euphemistically put it "don't waste it". But when parents bring their children up this way they are not giving them the freedom to decide how to spend their pocket money themselves. The survey did not look at the number of times this happened to children and adolescents, but the statistics did show that children who save are more likely to receive pocket money on a monthly basis than those who do not. This is in contrast to children who receive pocket money on an irregular basis. Such children are less likely to pop their pocket money into the piggy bank. What was noticeable was that less money is currently being saved overall than in 1996. The tendency to save has slipped from pole position in 1996 to fourth position in 2001 (cf Fauth 1999, p 100). These findings tie in with the overall trend since the beginning of the 90s. Saving, which ultimately equates to deferring consumption, is giving way to a growing tendency to immediate consumption. Not only that, but as personal incomes plateau, lifestyles can only be sustained by reducing savings (cf Vossen 2001, p 61f).

The 2001 survey also highlighted another positive side-effect brought about by giving children regular monthly pocket money: such children are less likely to borrow from friends or other members of the family. If anything, as they mature they are actually more likely to lend money to other people. The findings suggest that children and adolescents forced from an early age to manage money responsibly also cope better with borrowing and are less likely to get into debt than children not exposed to such issues.

2. Amount of pocket money

Diagram 1a and 1b highlights some interesting differences between European countries: on average 68 percent of adolescents receive pocket money, but in some countries the incidence is much lower, namely in Portugal, Italy, Finland, Ireland, Belgium and France.

As to frequency, regularly monthly payments are fairly standard practice in Germany, Austria and Sweden. In most other countries less time elapses between individual payments, especially in Spain, Ireland, Greece and the Netherlands where children are more likely than average to receive pocket money once a week.



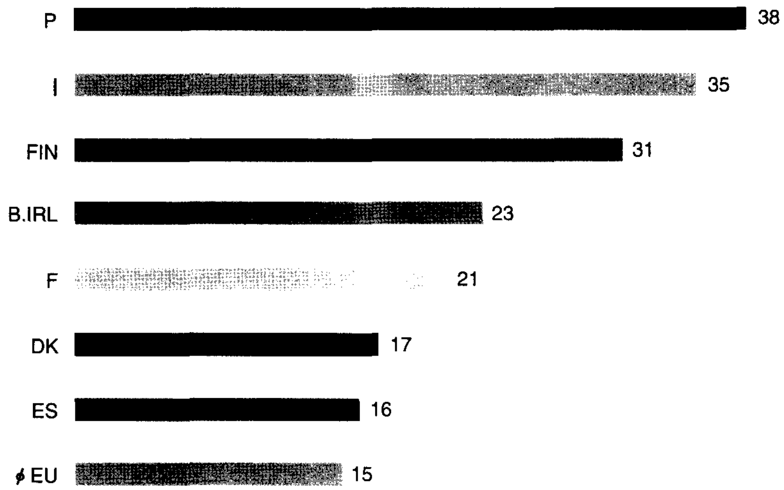
<Diagram 1a> Pocket money payments (in %)

It is interesting to take a look at the impact these differences have on learning processes. Where children receive weekly payments, the less experienced respondents find it more difficult to learn how to budget and spend their money sensibly. It is after all much easier to make pocket money last over a seven-day period than it is to manage a budget for a whole month. It would be worth giving children on-going consumer advice in this area - depending on the country.

Another interesting finding is that, compared to the average, a particularly high proportion of children and adolescents in Sweden and Greece have no fixed, regular income from pocket money. Around 1 in 4 children receives pocket money "when needed". This is possibly because parents in these countries place less emphasis on the developmental role played by pocket money and tend to use it more as an incentive or reward.

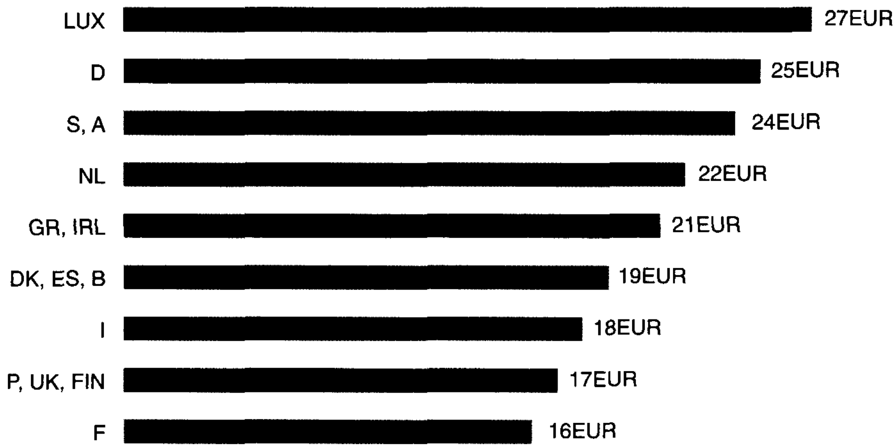
Another key research topic - over and above parents' willingness to give their children pocket money - was the total pocket money per person. **Diagram 2** shows the average amount of pocket money handed out per month in each country, indexed by purchasing power. Austria and Luxemburg lead the table by a long chalk. In terms of purchasing power, children and adolescents in Portugal, Denmark and Great Britain receive the least pocket money. When we compare this picture to that in 1996, we see that while the average amount of pocket money has increased, Greece and Ireland in particular have made strong improvements.

The 1996 study revealed a number of other interesting differences, in particular relating to gender: the statistical evidence showed that girls in



<Diagram 1b> Countries higher than average for not spending pocket money (in %)

Germany, Greece and the Netherlands received less pocket money than boys. When these findings were correlated with those of other studies, the gender-related pattern tallied with a survey carried out by the Axel Springer publishing house and a number of other German studies. A study of trends over a six-year period carried out by Petra Butz also found that girls receive less pocket money on average than boys. The author developed the following hypothesis:



<Diagram 2> Average amount of pocket money for 14 to 17 year-olds (*re-indexed by purchasing power)

"In difficult times - as in the currently prevailing social climate in Germany - girls from less educated families suffer financially. When it comes to making a decision one way or another, it seems sons benefit the most either for reasons of tradition or because they are better at standing up for themselves." (Butz 1997).

Thomas Kutsch et al added to this hypothesis by suggesting that women play a particularly dominant role in managing domestic budgets when money is tight, or during a crisis. At first glance this observation may seem quite surprising, but it might suggest that women are not only better at dealing with money, they also see themselves and other women as more willing to save and make ends meet than their male counterparts (cf Kutsch 1997, p 209).

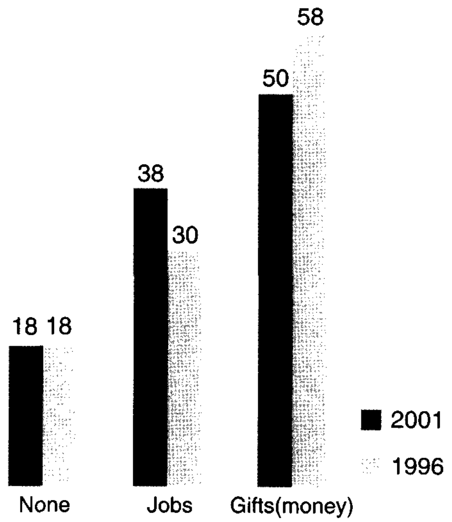
In 2001, five years later, we were no longer able to identify any significant gender differences between the amount of pocket money received in any of the countries in the EU. If anything there has been convergence. In all probability, as more and more women go out to work there is an increasing shift in domestic roles, such that men are becoming increasingly independent and different socialisation processes are beginning to influence the role played by girls.

When we look at the actual amount of pocket money received and compare the findings in 2001 to those in 1996, pocket money has risen in line with wages. It was not possible to look at the effects of the introduction of the euro however, because the latest survey was carried out just before the change in currency. A recent study carried out among six to twelve year-olds by the IJF Institute for Child Research in Munich, established that the euro has inflated the value of pocket. During the switch in currency at the beginning of the year parents were more likely to round up pocket money than convert to every last cent. This picture is probably reflected in similar trends across the other euro states.

3. Additional sources of income

Over and above the pocket money received by most children - on a more or less regular basis - it is also important to look at other sources of income such as presents in the form of money on occasions such as birthdays, Christmas, holy communion/ confirmation, initiation ceremonies and gifts for good grades at school. We also found that children often earn money from "independent work", in other words children doing chores at home, working in the family business or take on spare-time jobs in the free economy. As long ago as the 1960s one third of 15 year-olds and more than 50 percent of 17 year-olds topped up their pocket money with such jobs, mainly outside the home (cf Scharmann 1965, p 31).

In 1990 the Dusseldorf Department of Social Security commissioned a survey to look into a range of issues including the number of children earning money while still attending school. The study found that more than 40 percent of schoolchildren between the age of 13 and 15 regularly worked for money (cf Kolner Stadtanzeiger 1991). Other studies, such as the survey carried out by the IJF in Munich, have already shown that the amount of money being earned by children from part-time jobs is also increasing steadily. This trend ties in with the more lax



<Diagram 3> Additional sources of income (in %)

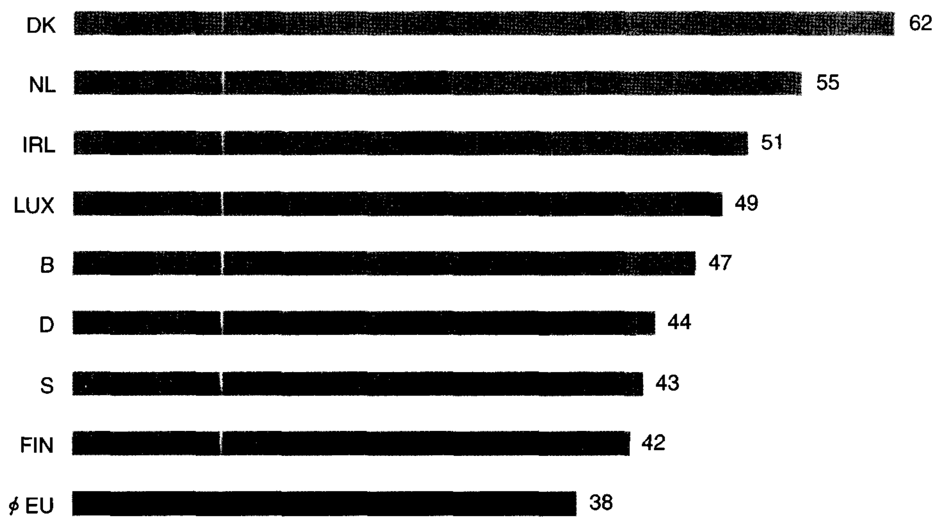
interpretation of legal restrictions governing youth protection: the jobs children were "allowed" to do during the 90s were subject to greater restriction than they are today.

Legislation expressly forbids children from working under youth protection laws, making a distinction between children and adolescents. People under the age of 15 are defined as children. People between the ages of 15 and 18 are youths - otherwise commonly known as adolescents. In Germany it is forbidden to employ children and adolescents still at school (15 to 18 year-olds). However, schoolchildren over the age of 15 are allowed to work during school holidays, for no more than 4 weeks in a year. Exceptions are made for paper rounds, jobs in private or farming households, farmyard jobs, helping out with sports, and jobs of a non-commercial nature such as events organised by churches, religious communities, clubs and associations, and working for political parties - as long as the job is simple and suitable for children.

In this study we also looked at the proportion of gifts children and adolescents received in the 15 EU states, in relation to their income from paid work and trends over time. When we looked at the average change by age group (10 to 13 year-olds and 14 to 16 year-olds) we found significant differences. Older children (14 to 16 year-olds) are much less likely to receive gifts than 10 to 13 year-olds and are much more likely to take on a part-time job.

This means on the one hand that the older children are, the greater the proportion of children who receive no pocket money. Having already started in some cases to learn at first hand about work, they now have their own income. On the other hand there is an increasing emphasis on jobs as a source of income. This is not surprising since by this age the consumption needs of adolescents have started to proliferate and they simply do not have enough pocket money to satisfy them all. Or it could be the case that adolescents do not receive pocket money any more quite simply because parents think they can go out and earn money themselves. So for the younger age group (10 to 13 year-olds) gifts make up the lion's share of income, whereas for the older age group gifts become much less significant.

Taking a job can also be seen as yet another step towards gaining independence from parents: for the first time ever, adolescents have money they have earned themselves. But earning money also brings new commitments: the recipients become dependent on the donor. So taking on a job brings about a shift in dependence, away from the



<Diagram 4> Countries above average for pocket money being topped up by jobs (in%)

financial dependence on parents and towards a new type of dependence on third-parties - employers.

The picture across Europe highlights a number of interesting differences: a particularly large number of children between the ages of 10 and 16 in Austria, Sweden, Germany, Greece, Spain, Portugal and England receive frequent gifts. The number of children not receiving any supplements to their pocket money is noticeably high in Belgium, Luxemburg, France and Portugal. In the other countries many children have jobs, with Denmark leading the field followed by the Netherlands and Ireland (see Diagram 4). The fact that adolescents in Ireland are the most keen to work can be explained by the number of children overall in Ireland. Whereas a quarter of the overall population in Ireland is under the age of 15, this age group in other countries only accounts for one fifth of the population. So each individual child in Ireland necessarily receives a smaller share of disposal income. Surveys in Denmark show that Danish children have very high consumption demands that can only be satisfied by taking on a job outside school hours. As a consequence Denmark occupies the pole position within the EU: no other country has so many schoolchildren and adolescents earning their own money through paid employment.

In Germany, too, 44 percent of children and adolescents work in their spare time. This exceeds numbers from the German Children's Charity, which cautiously estimates that "more than a third" of all children and adolescents are working. It is worth mentioning here a possible East-West divide in attitude: children in the West have more jobs than in the East (with the exception of Bavaria in the West). This contrasts to the East where they receive more gifts.

4. Borrowing money

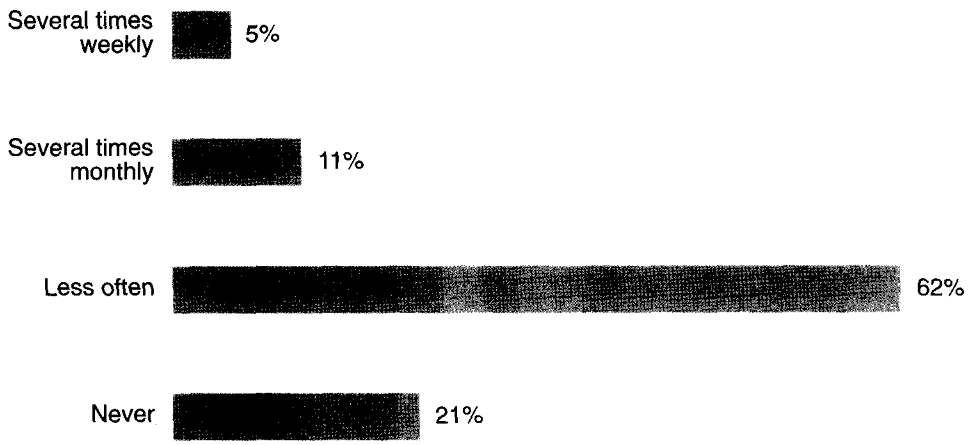
Borrowing was new to the latest survey, so the findings outlined in this section cannot be compared with the previous study. We used two questions to look at this issue: "Do you sometimes borrow money from other people?" and "If so, who do you borrow money from".

Diagram 5 shows how often children and adolescents in the EU borrow money: on average a good 16 percent of respondents claim to do so at least once a month. The tendency to borrow money was above average in England (30%), Ireland (26%), Finland (26%) and Luxembourg (25%). Nevertheless, one in five respondents said they never borrow money. In Belgium, Greece and France one in three respondents claimed they never do. There are obviously a number of differences in national borrowing habits and it seems once again that this is dictated by the way in which children learn to deal with money. For example, the survey found that receiving regular monthly pocket money has a beneficial effect on how children learn the social norms and values of money: they are less likely to borrow. We can assume that this will also have an impact on credit habits in adult life: people who learn early how to budget are more likely to get by with the money they have and less likely to take out personal loans. Even if they are forced to take out credit, they probably arrange to pay back the loan quickly.

When we look at socio-demographic factors a number of other significant differences emerge: boys are less likely to borrow money than girls. This does not tie in totally with the traditional view that women are better at managing a budget than men.

Finally, when we look at age we find the older children are, the greater the tendency to borrow. Parallel to this, consumption needs rise (which would certainly account for the need to borrow more).

Interesting is also from whom children and



<Diagram 5> Frequency of borrowing money

adolescents borrow money: the first port of call is friends, then mothers and much less frequently fathers, siblings or grandparents. But at least they can probably bank on grandparents to think of the money as a gift rather than be told to "give it back later".

This question also highlighted a number of differences both by country and by socio-demographic profile: There is an above average tendency for children to turn to their friends for money in Luxembourg, Finland, Austria, Denmark and Germany. As children become older the role played by peer groups grows in importance, so it is not surprising to find that the older group of 14 to 17 year-olds is more likely to ask other members of a peer group for money than the younger group. This contrasts to England, Ireland, Denmark, Spain and Sweden where parents are more likely to be asked for money. When older relatives are turned to, girls are more likely to ask their mothers for money than boys. Boys are more likely to turn to their grandparents. Whereas the older group is likely to ask friends for money, the younger 10 to 13 year-olds ask their mother, father or grandparents. The older group also places more emphasis than the younger group on "credit partners" in the form of siblings.

The last significant correlation was to be found in borrowing habits analysed by household size. The larger the household, the more likely children are to ask their father or siblings for money. In turn, siblings are more likely to be asked for money. This seems logical: larger households are more likely to have more than one child. Children therefore have other, perhaps "less complicated", sources to turn to for money than parents. That children in larger families are more likely to ask their fathers for money could be explained by the fact that families with more than one child are more likely to adhere to traditional family roles. Women are less likely to be working (being expected to look after the children) so the father would be responsible for finances.

IV. Conclusion

What this study shows quite clearly is that pocket money has become a key tool in the financial socialisation of children and adolescents. The frequency, regularity and amount of payments have a direct influence on their consumer behaviour and ways of dealing with money. These factors also affect how responsibly recipients behave. Children start to understand how much effort has to be put into satisfying consumer needs. This process also helps them understand and appreciate the financial situation within their own household.

There are clear differences between countries in the survey sample with respect to the financial socialisation process. From a developmental point of view, it seems sensible to introduce money to children and adolescents along the lines taken in the northern European countries, where children receive regular monthly pocket money. It is then within their own responsibility to make decisions for themselves (including poor ones, hand-in-hand with the consequences). This enables them to work out the limitations of money and helps them learn how to spend money - our universal bartering tool - more responsibly.

This is a much better way of achieving the overall long term objective - by teaching children that money is a resource to be used advisedly. It cannot be achieved by giving children money - which is mainly seen as a reward. Unsurprisingly, parents who go out of their way to encourage their children to be independent and accept financial responsibility early, also stress the importance of young people starting to earn money for themselves. Given the growing number of private households currently living on credit and the amount of advertising people are bombarded with, it makes sense to teach children about money so that they can learn how to run a household properly. This can only be good for the economy as a whole.

A completely different dilemma arises when adolescents become overzealous and try to take on too much work outside school. In recent years Teaching Associations and the Ministry of Education in both Denmark and Germany have expressed concern about the way school is losing out to children's part-time jobs. Not only do children have to deal with stress in the classroom but also in the workplace, with detrimental effects on their school grades. International comparisons in the 2000 PISA study yielded strong supporting evidence: German schoolchildren's performance was in the bottom half of the league tables (cf PISA 2001). So we need to be clear about the fact that regular pocket money and self-earned income are only beneficial to children's ability to deal with money when they help children learn how to budget, save and lend to others less frequently. And these lessons are only positive when schoolchildren maintain a healthy balance between school-work and part-time paid employment. This brings us full circle to the question of youth protection legislation, which spells out clearly (part 2 - under Paragraph 5 on the employment of children) that children over the age of 13 may only be employed if the tasks involved are easy to do. The definition of an easy job is that there must be no detrimental effect on their ability to "gain benefits from school lessons". Clearly, not enough is being done to monitor practice in the free economy.

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