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A Spendthrift 5-Year-Old? Researchers Say Yes; A study finds that young children exhibit the same tightwad vs. spendthrift tendencies as adults

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For some people spending money is very stressful. For others, it's fun—even therapeutic. Might children share these same tendencies?

Scholars use a scale to measure adults' propensity to spend and save. On one end of the scale are tightwads, or people who feel distress when they spend money, and on the other end are spendthrifts, or people who spend a bit too freely. In the middle are unconflicted people who don't have strong emotional reactions to either spending and saving. Researchers have used the scale to successfully predict people's credit scores and long-term savings, irrespective of income.

A recent study from the University of Michigan, published in the Journal of Behavioral Decision Making, sought to find out if children as young as age 5 might exhibit the same tightwad/spendthrift tendencies that researchers could measure and use to predict their behavior.

It turns out they do.

"Young children experience a range of feelings related to spending and saving, and those feelings actually affect what they do with their own money," says Craig Smith, a research investigator at the University of Michigan, and one of the co-authors of the study.

The findings could be an important step toward a better understanding of how saving and spending behavior develops in the first place, and even shape how children are taught about money—though much is still unknown, such as whether children's spending proclivities might change over time.

Co-author Scott Rick, an associate professor at the University of Michigan's Ross School of Business, was curious about when people begin to exhibit spending and saving tendencies. So he and Dr. Smith—along with Susan Gelman, a distinguished professor of psychology and linguistics, and Margaret Echelbarger, a doctoral candidate—modified the scale for children and recruited more than 200 children ages 5 to 10 for the study.

The children were asked to look at seven slides. Each slide had two toy characters. A character might say: "I like saving money," while the other character would say, "I like buying new things." The children were asked to point to the character that was most like them. The researchers then ranked children along the tightwad-spendthrift continuum.

Next, children were given a dollar. The researchers asked the children if they wanted to buy a bag of toys or keep the dollar and take it home. Overall, about 51% chose to buy a bag of toys, with the spendthrifts more likely to make the purchase and the tightwads more likely to keep the dollar.

"The scale did a pretty good job predicting what would happen when the children had a dollar in their hands," says Dr. Smith, adding that the researchers are now conducting a larger follow-up study to try to better understand how these emotional reactions to spending and saving money develop in the first place. For example, they are looking more closely at children's personality traits such as impulsivity, and their numerical fluency. They are also looking at the role of parents, including how they speak to their children about money and how their own behavior may affect their children's attitudes.

The line of research has some potential implications for financial education in that it could be used to create targeted interventions for children, depending on where they fall along the continuum. For instance, children identified as spendthrifts could be taught about the negative consequences of overspending and about opportunity cost—or how spending now could cost them down the road. For tightwad children, parents or teachers could talk about why it's important to buy what you need, says Dr. Smith.

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