

# Teaching YOUR KIDS about Money

## Seven lessons from an economist

By DR. ANTONY DAVIES

As an economist with six children, teaching kids about money early on is a top parenting priority. In our house, a first-grader gets an allowance and a "bank sheet" that is posted in the kitchen. Every time the child spends or receives money, he enters the transaction on the bank sheet. At the end of each month, I check the calculations and post new bank sheets.

Here are lessons you can teach with an activity like this:

**1.** Money is the reward for work. Emphasize that an allowance is not a right, but the reward for chores. If the chores aren't done, the allowance isn't paid.

**Note to the teenagers:** No, you cannot give up your allowance in exchange for being excused from chores.

**2.** Money is real, whether it is cash or an entry on a ledger. Children who don't learn this lesson grow up to become adults who think that a credit card isn't "real money."

**3.** You must monitor your finances. If a child overdraws his account or fails to enter a transaction, charge a fine. There will be tears and you will feel horrible, but don't give in.

**Note to the teenagers:** Think this is unfair? Try overdrawing at a real bank.

**4.** Living within an income means sometimes making painful choices. Children who do not learn this grow up to become spendthrift adults because they never learned that getting something always means giving up something else.

While shopping, if a child asks for something for herself, tell her to use her allowance. This seems harsh, but it is a valuable teaching moment and empowering. You will see the wheels turning in the child's head as she weighs the desire for the object against the necessity of paying.

**Note to the teenagers:** Yes, I hear you saying that you can't live without this thing. But if you don't value the thing enough to part with your money, why should I part with mine?

**5.** Making choices is empowering. When you force the child to make a purchase decision, you run the risk of the child making a poor choice. Advise your child, but allow your child to make a poor choice if she insists. When the mistake becomes apparent, talk about what she could have done differently and what she'll do next time. It's painful to watch, but the child gains a growing sense of empowerment as she realizes that she is the one making the decision.

**6.** Financial rights imply financial responsibilities. Require the children to pay for birthday presents when they are invited to parties. You'll need to work with the younger

ones; make sure they have plenty of time to save and remind them why they are saving.

**Painful but important:** If they had the opportunity to save money for the present but didn't, don't let them go to the party. It sounds harsh, but it will only happen once. The powerful accompanying lesson: Responsibility means living with the consequences of one's decisions.

**7.** Long-term saving is rewarding. If a child saves his money for at least 12 months, I pay him 100 percent interest on the savings. Kids' time horizons tend to be too short for them to understand interest. Paying a ridiculously high interest rate gets the kids' attentions. Each month, when I post new bank sheets, I show the interest they have earned so far on their savings. Even though they can't withdraw the money for 12 months, they can see the amount steadily growing.



**A final word on teenagers:** There is nothing so endearing or aggravating as a teenager's myopic quest for "fairness." When she turned 16, my daughter informed me that it was unfair that she worked so hard for only a \$20 allowance.

"I want to be paid minimum wage for the work I do at home," she said.

"Fine," I said.

"Really?" she asked.  
 "Absolutely," I said. "Your labor is valuable, and it is unfair for me to take your labor without just compensation."

Astounded, she pressed me on the details.  
 Would I pay her \$7 for each hour that she worked? Yes.

Would I pay her each week? Yes.

Regardless of the number of hours worked? Yes.

"Fine," she said, "that's fair."

"No," I replied, "it isn't fair yet. You have a room in this house, use of the car, meals, clothes, electricity, water, insurance and many other things of which you are likely unaware. If you believe that labor must be fairly compensated, then you must agree that your parents' labor — work that provides all these things — must be fairly compensated. To be fair, I must deduct your \$7 per hour from the \$800 per month that you will owe me for all these things that you currently get for free."

After the tears, we had a talk about what it means to be a member of a family and to contribute to the household not out of pecuniary interest, but out of love. For the first time, she realized that my financial rules weren't there to restrict her freedom, but to help her learn how to exercise that freedom well.



Davies is associate professor of economics at Duquesne University and Mercatus Affiliated Senior Scholar at George Mason University. His areas of research include forecasting, consumer behavior and public policy.



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