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Socialization processes and pathways to healthy financial development for emerging young adults

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ABSTRACT

Using a two-time longitudinal survey, we studied a cohort of college students ($N = 1511$) to develop a socialization model of the proposed pathways leading to healthy financial development. The participants ranged in age from 18 to 21 years at Wave 1 and 20 to 24 years at Wave 2. After controlling for gender, ethnicity, SES, and negative financial events, our path analysis revealed a cascading pattern of co-occurring change: positive change in individuals' perceived parental socialization had the strongest associations with positive change in financial attitude, financial controllability, and financial efficacy. In addition, both formal and informal financial education played a significant role. In turn, positive change in attitude had the greatest effect on positive change in behaviors, followed by financial efficacy and financial controllability, respectively. We discuss the process whereby positive financial socialization factors may contribute to positive change in the ways that young people think and behave with respect to managing their finances.

Socialization processes and pathways to healthy financial development for emerging adults

Achieving self-sufficiency is a critical developmental task during a period known as emerging adulthood (ages 18 to 24) (e.g., Arnett, 2004), and financial independence is one key marker of a successful transition to adulthood (Danziger & Ratner, 2010). Developmental psychologists, however, have largely ignored the process by which emerging adults develop financial independence and the behaviors inherent to it. Perhaps during the economic growth of the previous decades this neglect was understandable, but the currently weak labor market (U.S. Department of Labor & Bureau of Labor Statistics, 2012), plus a lengthening of the transitional period in the U.S. (Hallquist, Cuthbertson, Killeya-Jones, Halpern, & Mullan, 2011), has provoked a growing awareness of the importance of learning financial skills and, among educators and practitioners at least, a demand for a better understanding of how emerging adults develop financial behaviors. Certainly, since the financial crisis of 2008 young adults have become more interested in learning financial skills and in taking personal responsibility for their financial well-being (Sallie Mae, 2009).

College students, many of whom are in their late teens to early twenties, are by and large engaged not only in defining themselves socially and intellectually, but also in cultivating career and economic aspirations. While they are not, as a rule, financially independent, many do manage their own day-to-day finances (e.g., budgeting, borrowing, saving), and the practice and repeated exposure to financial activities may help them to develop the knowledge and skills they will need to become self-sufficient (Jorgensen & Savla, 2010). Many, however, struggle to begin the learning process because they lack a fundamental understanding of the financial concepts that govern prudent financial practices. For instance, the college students (ages 18–23) who participated in the JumpStart Coalition's national survey scored, on average, only 62% on a standard financial literacy test (Jump$tart, 2008).

Purpose of the present study

Since the financial behaviors practiced during emerging adulthood are likely to influence financial habits throughout life (Eccles, Templeton, Barber, & Stone, 2003), this study focuses on the formation of financial behaviors in emerging adulthood. Specifically, we rely upon theories of socialization to propose and test a model of financial behavior development during a three-year collegiate period.

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We relied on data collected by means of a two-timed, longitudinal self-report survey of a sample of students, the first wave conducted during their first year (ages 18–23) and the second during their fourth year (ages 20–25) of college. We designed the survey in such a way as to measure, at both times, the socialization factors that influenced their financial attitude, perceived financial control, financial efficacy, and financial behaviors. Unlike data collected in cross-sectional studies, the longitudinal data we compiled enabled us to explore changes in the financial behaviors of the students in their first and fourth year of college, and also to investigate what might account for *between-person* variation in these changes. That is to say, by controlling for the financial knowledge and skills of our participants as they entered college (at 18 to 23 years of age), we were able to examine the several *unique* effects of socialization and developmental factors that may take place during the collegiate period. To our knowledge, no other studies have examined *financial* socialization as a developmental process aimed at achieving self-sufficiency during emerging adulthood.

Theoretical approach

Since financial behaviors are an important component of everyday spending and savings decisions, we adopted a consumer socialization perspective (Moschis, 1987) as a framework for examining financial behavior as a developmental process. The theory of consumer socialization provides an understanding of how external financial socialization agents influence individuals' mental self-regulatory mechanisms and ultimately their consumer behaviors. According to Moschis (1987), the consumer socialization model consists of three components: outcomes, socialization processes, and antecedents. Its basic premise is that an individual learns consumer skills, knowledge and behavior (i.e., outcomes) from the socialization agents (i.e., socialization processes) that shape the development of the individual's character (Moschis, 1987). For a child, parents are usually the most important agents; however, not only people but also organizations can act as socialization agents, and so, as the child gets older, the media as well as peers and teachers become influential (see e.g., Steinberg & Silk, 2002). Consequently, the process is affected by the age of the individual and by the socialization environment (i.e., antecedents). Combining consumer socialization theory with a developmental perspective in emerging adults thus seems appropriate, given the salience of self-sufficiency as a developmental goal and emerging adults' limited experience in making financial decisions.

The socialization learning process takes place according to three mechanisms: modeling, reinforcement, and social interaction. With respect to children especially, modeling refers to a tendency to emulate the behaviors of socialization agents, while reinforcement of the individual's behaviors, positive or negative, further shapes the individual' learning. Social interaction involves social norms (e.g., parental expectation) and communication and the interpersonal or social relationships that exist between the child and the agents.

Emerging adults typically engage in exploration beyond their family-of-origin's attitudes and beliefs (Arnett & Jensen, 2002). Thus, while modeling and reinforcement are important processes during childhood, social interaction might be a more important process as children become more self-sufficient (Ahammer, 1973). Because consumption outcomes depend on a hierarchy of simple to complex decisions, one in which financial decisions (e.g., savings and spending) are considered to be of the highest order of decisions a consumer makes (Arndt, 1975), in this study we regard financial decisions as outcomes, and we incorporate all three mechanisms (modeling, reinforcement, and social interaction) into the operationalizing of socialization processes. Our treatment of financial decisions as outcomes is not intended to imply a unidirectional model of socialization, as we acknowledge here, and later, the possibility of a bidirectional parent-child influence that has been thoroughly demonstrated (e.g., Bell, 1968; Collins, Maccoby, Steinberg, Hetherington, & Bornstein, 2000).

Socialization theory served as the base for the financial socialization model of first-year (18–23 years old) college Students (Shim, Barber, Card, Xiao, & Serido, 2010), a four-level hierarchical structure that connects anticipatory socialization to financial learning first, to financial attitudes next, and finally to financial behavior. By applying the first-year model to the entire collegiate period (spanning from 18–23 years to 20–25 years in this sample), and focusing on changes in students' socialization processes and outcomes, we conceptualized a Socialization Model of Pathways to Healthy Financial Development among Emerging Adults (see Fig. 1).

The continuing role of parental socialization on emerging adults' financial behaviors

A number of studies, across a wide spectrum of domains, including development psychology, have found evidence that parents continue to act as socializing agents after their child leave home (Zarit & Eggebeen, 2002). Evidence of their continuing influence has been found across a wide spectrum of domains, including behaviors related to health, alcohol use, spending, and saving (e.g., Ary, Tildesley, Hops, & Andrews, 1993; Moschis, 1987). As Bandura (1989) suggested, the decisions that offspring must make become increasingly complex as they age, and so they turn to others they perceive as having more knowledge and skills in the relevant domain of activity. It seems reasonable to presume that financial management might well be a domain in which children generally believe that their parents have more expertise than either they or their peers, and if this is so, then we can assume that during emerging adulthood parents will serve as dominant financial socializing agents.

In fact, numerous studies support our assumption and further assert that parents shape their children's financial attitudes and behaviors through both explicit teaching (Gutter, Garrison, & Copur, 2010; Jorgensen & Savla, 2010) and implicit modeling (Gutter et al., 2010; Norvilitis & MacLean, 2009). More specifically, Jorgensen and Savla (2010) found that, among emerging adults (ages 18–29), perceived parental influence had a direct effect on financial attitude and an indirect effect on financial behavior through attitude. In a national sample of emerging adults in college ($N = 15{,}797$, average age 21.3), Gutter et al. (2010) also found a gender difference. Young women, it seems, tend to have more conversations with their parents about money than do young men, and therefore they are more strongly influenced by their parents. In addition, those of both gender who learn positive financial management habits from their parents were found to have lower credit card debt in adulthood (ages 18–78) (Grinstein-Weiss, Spader, Yeo, Taylor, & Freeze, 2011; Gutter et al., 2010).

Taken as a whole, this evidence suggests that parents can and do significantly influence emerging adults' financial attitude and behavior. However, still unclear is the breadth of that influence in comparison to other socialization agents, both before and after young adults enter college. As the first step toward filling this void in the literature, Shim et al. (2010) examined both the *anticipatory* socialization that takes place during early adolescence (ages 14–18) and the socialization that takes place among college freshmen (ages 18–23). These researchers found that emerging adults differ greatly in terms of how much they know about financial matters, and also differed significantly with respect to their attitudes and behaviors relating to financial matters. Also, it was discovered that the ease with which emerging adults learn to make prudent financial decisions depends partly on the degree of anticipatory financial socialization they acquired from parents while growing up. The researchers also found that parents exert a substantially greater influence than that exerted by the workplace and high-school financial education combined. Not only do we rely on these findings in our study, but also we extend the First-Year Model by specifically monitoring the variations that may have occurred during the four-collegiate years.