Parents’ Lessons in Saving and Spending

“Spend money, but don’t waste it,” my mother said.

I learned my first lessons about saving and spending from my parents, listening to their words and watching their behavior. I recall going with my mother to a bookstore to buy the textbooks for 4th or 5th grade. When the bookstore’s owner totaled the bill, my mother asked if a discount was available. I was embarrassed, thinking that bargaining was unseemly. But the store owner readily discounted the bill by 10 percent and explained to me that there was no shame in asking for a discount.

My wife and I taught this lesson to our daughters. We entrusted the recent task of buying a new car to our younger daughter. She did her search on the internet, negotiated with the dealer in the showroom and bought the car at a good price.

My father opened a savings account for me when I was 8 and offered a deal. He would double every deposit I made. I offered the same deal to my daughters.

Well-being is enhanced by a good balance between saving and spending today and in the future. In turn, well-being enhances that good balance. People enjoying high well-being exercise better control over saving and spending and are more thoughtful in their choices. They expect long lives and are therefore concerned about the future, beyond the present.[1]

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Keeping a Good Balance Between Saving and Spending

People learn good balance between saving and spending mostly from their parents, generally following in their footsteps. A study of defaults on personal loans in Denmark found that the propensity of default is more than four times higher among people whose parents are in default than among people whose parents are not.[2]

This link between the financial troubles of parents and children might exist because children and parents face common adverse income and wealth shocks, because parents support children facing adverse shocks and children support parents facing such shocks, or because parents transmit financial attitudes and behaviors to their children. The evidence indicates the last explanation is the most important.

Most parents are conscientious about transmitting to their children financial attitudes and behaviors that foster a good balance between saving and spending. Tracey, a 51-year-old British woman, described transmitting these attitudes and behaviors to her 24-year-old son, a low-income law student with a girlfriend he intends to marry and a desire to buy a house. Yet, she said, when he is paid each month, he goes out to expensive restaurants.

“I explained to him that even though he needs to enjoy himself whilst he is young, he needs to think ahead and plan, otherwise he will never achieve his goals,” she said. “I hope he has taken this onboard.”[3]

Tina, a 55-year-old British woman, however, rejected the poor attitudes and behaviors transmitted by her parents. “My parents were greedy and always in debt, it taught me a valuable lesson.” She carries no debt and neither do her children. And she has planned for her own and her children's future. “Living beyond your means is not worth it, it causes stress, unkindness and bitterness and ruins relationships around you,” she said.

Attitudes and behaviors that foster a good balance between saving and spending often take time to sink in even if they eventually do. “When you’re young, you think it’ll come and go,” said Robert, a 35-year-old American man. “But then eventually you have a hurdle that you feel like money is important and you spend it on things that are necessary more than what you want,” he said.

And Eva-Maria, a 35-year-old Mexican woman said, “When I was young, I wasted my money on things that covered only a few needs but were mainly entertainment rather than essentials. … You want to be fashionable, have the most modern cell phone, brand name clothes, the best computer, etc.”

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Extreme Frugality May Later Cause Regrets Over Missed Opportunities

The moral of the Grasshopper and Ant fable, as usually told, is that you should balance saving and spending by depriving yourself of spending when young to assure your ability to spend when old. This is also the moral of the FIRE movement — “Financial Independence, Retire Early,” which advocates saving 50 to 75 percent of income while working to be able to retire in your 30s or 40s.

Journalist Steven Kurutz described Carl Jensen, a software engineer earning a good income and benefits but too stressed to unwind with his family after work.[4] An especially brutal workday prompted Jensen to Google “How do I retire early?” and discover the FIRE movement.

He and his wife then drastically reduced their spending during the following five years, replaced their house with a smaller one and saved large portions of their income. They retired with a $1.2 million net worth when Jensen turned 43.

Not all agree that FIRE adherents maintain a good balance between saving and spending. Jeffrey, a 60-year-old American man, described a classmate who joined the FIRE movement. “I do know a guy who worked his tail off between the age of 22 and 32, worked a bazillion hours a week, retired at 32. But he lost his 20s.”[5]

Jeffrey prefers a better balance. “One shouldn't float through life, but I find a determined quest for some goals can be limiting and you miss the voyage along the way. … I want time to pursue new interests, more time to spend with my wife, and the ability to visit the kids and possible grandkids at will.”

Indeed, some FIRE adherents may come to regret their supposedly farsighted choice of extreme frugality, as time diminishes guilt over past indulgences but increases regret over missed pleasures.

The COVID pandemic persuaded some to clean their financial house, aiming at financial independence rather than at the more radical FIRE.[6] Journalist Charlotte Cowles described Traci Williams, a psychologist in her 30s working at an Atlanta hospital, who started her financial journey by buying one share of Disney in her Robinhood account.

“The pandemic made me realize how fragile our security really is,” Williams said. She was pleasantly surprised when she examined, for the first time, the balance of her retirement savings account at the hospital, but was concerned about $30,000 in credit card and car debt.

She figured she would reach her $1 or $1.5 million financial independence number by her 50th birthday if she followed her financial plan. “I love being a psychologist, so I don’t want to stop working then,” she said. “But when I reach a point where I won’t need a paycheck to support myself and my son, that will give me more options.”

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Prior lifetime experiences also affect the balance between saving and spending. People who have lived through times of high unemployment show persistent pessimism about their future income and spend much less than others, even though their actual future income is unrelated to their past experiences. Their experience-induced frugality builds up more savings and wealth.[7]

Frugality vs. Miserliness

Frugality, however, can easily morph into miserliness that diminishes well-being rather than enhance it. A woman responding to one of my *Wall Street Journal* articles shared her story:[8]

"My husband was reared by extremely thrifty parents who survived the Great Depression and WWII, and through hard work and frugality bordering on stinginess (all Christmas gifts came from the Salvation Army), they accumulated a very comfortable nest egg.

They passed on to him their fiscal philosophies and my husband absorbed them like a sponge. My husband handled our finances. Once he died and I took over the finances, I was amazed at how much money we had. I shall have to work very hard to spend all of it, but I plan to give it my best effort. In the two and a half years since my husband died, I have been to Africa and made three trips to Europe.

I have already booked trips to see lowland gorillas in Rwanda and Uganda, snow monkeys in Japan, penguins in Antarctica, and ride a horse across the Mongolian steppes. These trips were booked after my doctor told me that based on her patients, 80 is the age at which people lose their energy and enthusiasm for traveling. I am attempting to get in as many trips as I can before hitting that mile marker.

I have also made many donations to local charities and plan to set up a trust fund for a friend's grandchild who has Down syndrome and would otherwise become a ward of the state when his hand-to-mouth existence parents die. My husband never reaped any benefits from his saving habits and only received three months of Social Security before dying. May others escape his fate."

In another *Wall Street Journal* article, I offered the following statement, asking readers whether it was true or false.[9]

The price of a venti latte at Starbucks is a bit more than $4, amounting to approximately $500 a year if you drink 10 lattes each month. If you are 25, the $500 from just one year's worth of lattes would compound to a bit more than $5,000 in the 40 years until your retirement at 65, if you save it in an account yielding 6% annually. So, it is best that you forgo lattes.

True or False?

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False.

Sure, for some people this may make sense. But not as a rule. The price of a box of 240 diapers is approximately $46, amounting to about $500 a year if you use 11 boxes to diaper your baby each year until he is toilet trained. Yet few would advise you to wait and have your baby at 65. Whether latte or diapers, ask yourself whether $500 at age 25 would serve you better or worse than $5,000 at age 65.

Some readers agreed. “I especially liked the counter-intuitive point about the value of spending $500 a year on lattes when you are 25 versus spending $5,000 on something else when you are 65. Oddly, this helps me think about how I am spending my money at 78.”

Others disagreed, many vehemently. “Make your latte at home and save the cash — overconsumption is the enemy of personal investment!!!”

In concluding this article, I wrote: “Listen to my mother’s advice: ‘Spend money, but don’t waste it.’ Don’t make saving a virtue and spending a vice.”

Endnotes

[1]Cahit Guven, “Reversing the Question: Does Happiness Affect Consumption and Savings Behavior?” SOEP Paper 219 (August 2009).

[2]Claus Thustrup Kreiner, Søren Leth-Petersen, and Louise Charlotte Willerslev-Olsen, “Financial Trouble Across Generations: Evidence from the Universe of Personal Loans in Denmark,” *The Economic Journal* 130, no. 625 (January 2020): 233–262.

[3]Meir Statman, “Well-Being Advisors,” *The Journal of Wealth Management* 23, suppl. 1 (Winter 2020): 2-44.

[4]Steven Kuretz, “How to Retire in Your 30s With $1 Million in the Bank,” *New York Times*, September 1, 2018.

[5]Ran Kivetz and Anat Keinan, “Repenting Hyperopia: An Analysis of Self-Control Regrets,” *Journal of Consumer Research* 33, no. 2 (September 2006): 273-282.

[6]Charlotte Cowles, “The Pandemic Forged New FIRE Followers, With a Difference, *New York Times*, July 14, 2021.

[7]Ulrike Malmendier and Leslie Sheng Shen, “Scarred Consumption,” International Finance Discussion Paper No. 1259 (October 2019).

[8]Meir Statman, “The Mental Mistakes We Make With Retirement Spending,” *Wall Street Journal*, April 24, 2017.

[9]Meir Statman, “How Financially Literate Are You Really? Let’s Find Out,” *Wall Street Journal*, October 19, 2017.