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The Financial Diaries: How American Families Cope in a World of Uncertainty

Jonathan Morduch and Rachel Schneider
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Statistical analysis can be very helpful in avoiding purely individualistic arguments and emotivism. Looking at aggregate data can highlight trends and patterns otherwise invisible to normal observation. However, the quality of available data depends on factors such as the selected boundaries of categories and frequency of reporting that can ignore the longitudinal trajectory of individuals within the data set. The tradeoffs are usually pretty straightforward: one can usually get high-level, periodic data from a large sample or significantly more granular data on a much smaller sample. The first option lends itself to generalizations while the second can help explain the subtleties masked by those generalizations or even undermine improper conclusions drawn from the larger data set.

The Financial Diaries is based on the granular approach to the study of personal finance. Instead of relying on commonly available data sets, such as those from the Census Bureau or the Internal Revenue Service, Jonathan Morduch and Rachel Schneider elected to do an in-depth, year-long study of the financial habits of 235 households that ranged from below the regionally adjusted poverty line to two times that amount. The result is a revealing socioeconomic portrait that does a great deal more to illustrate financial stability and habits than most economic studies.

The book begins with an introduction, then launches into three unevenly divided parts. The introduction outlines the parameters considered when collecting the stories for this volume and informs the reader of the basic findings in the study: month-to-month economic instability is a greater financial problem for most of the surveyed households than simple cash flow. The remainder of the volume explains how households living in a state of economic precariousness attempt to cope.

Part 1 outlines the nature of the economic uncertainty in three chapters. In the first chapter, the authors explain that a large number of those in the studies have an acceptable yearly income but experience weekly or monthly fluctuations in their paychecks that sometimes put them below the poverty line for parts of the year. This is due to a number of factors, but the most common factor is seasonal fluctuations in available work, although it also includes the large influx of money during tax season due to refunds and credits. Chapter 2 outlines the instability in expenditures experienced by the households. The obvious examples emerge, such as unexpected car repairs and medical bills, but there are other self-induced examples of spending fluctuations that often lined up with peaks in income or a desire to have a "normal" Christmas. The third chapter explains the various ways households use to smooth out the dips and spikes in cash flow. This includes attempts to make it harder to get to saved money to reduce the temptation to overspend when times are good and stockpiling excess necessary goods so the money cannot be spent on frivolities when surpluses are available. It also includes recourse to pawn shops, payday loans, government assistance, and other options of varying quality and long-term viability when income drops below expenses.

Part 2 shifts from the broader analysis to look more in depth at the coping strategies of families in response to financial instability. Chapter 4 touches on various savings schemes that members of the study used. Few of them relate to traditional financial products. What the study reveals is that the poor can and do often save an impressive percentage of their income, but they are typically saving money for relatively near-term purposes instead of investment. The fifth chapter explains the various ways the members of the study borrowed money to smooth their cash flow. This included typical sources of credit, such as credit cards, but there were many alternatives such as personal loans from family and other creative, community solutions. Chapter 6 outlines the higher prevalence of various methods of sharing used by the members of the study as they leveraged and contributed to their community, depending on their available resources.

Part 3 summarizes the findings of the study and offers some policy recommendations. In the seventh chapter, the authors reiterate the basic conclusion of the *Financial Diaries* project; namely, the majority of the study participants, especially those at the bottom of the income scale, experienced occasional poverty throughout the year that may have been masked from statistical analysis on a year-to-year basis. More significantly, financial instability often led to behaviors that perpetuated the cycle and sometimes prevented recovery even when ample resources were available. Chapter 8 concludes the volume with recommended changes to policy and practice. In general, the recommendations include greater government intervention into employment and an increase of wealth redistribution mechanisms, but they also suggest more frequent pay cycles and changes to corporate debt practices.

The key contribution of *The Financial Diaries* is that it provides access to detailed information over a relatively long period for a relatively large sample size, given the study requirements. In some cases, the data from this study reinforce common understandings about lower-income Americans: unpredictable expenses and unexpected job loss are more significant dangers to the poor than the rich; alternative financing often leads to cyclic indebtedness; and personal spending habits have a significant impact on the financial well-being of a household. At the same time, this study also reveals some surprising findings: financial penalties do little to inhibit the use of long-term savings to meet short-term needs, easy access to banking resources can have a negative effect on personal spending, and families will frequently choose a lower, steadier income pattern over higher but unpredictable earning potential.

This is a very informative study, which has the potential to guide poverty alleviation efforts and focus the content of programs designed to enhance financial literacy. The book provides a well-balanced mix of anecdotal information along with statistics, which makes it readable but may put off individuals for whom the p-value is a key arbiter of truth. In reality, this book is more significant as an entry into the ledger of sociological data than for use in numerical predictions, but the data it provides is important.

In many cases, however, the authors seem to draw conclusions that would tend to make the broader situation worse in the long-term. For example, they call for economic changes designed to restrict the ability of employers to regulate their workforce. On the surface, such policies would not only dampen the instability of those who were employed, but it would also tend to reduce opportunities for those already outside of the system. The authors also tend to reflect uncritically on the habits of their study participants. They call for changes to financial regulations, but not to the short-term mindset of those coping with financial instability. It would be unsympathetic and, based on the data, unfair to put the fault of all the economic difficulties described in this volume at the feet of the struggling members of the studies. However, in some of the cases, including the family with an income over $60,000, the financial struggles were largely self-induced. In other cases, relocation to a less expensive locale was an option not even considered, though it would likely have improved the situation dramatically. There are different solutions that could be proposed than those supported by the authors.

This book demonstrates that the reality of the financial situations of many US citizens is much more complex than even careful statistical analysis often reveals. *The Financial Diaries* undermines the assumptions that lead to simplistic policy proposals or dismissals of poverty as purely self-induced. This is a book that deserves to be read carefully by those across the political spectrum who earnestly desire the improvement of the economic circumstances of those at the bottom of the income scale.

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