



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

Jonathan Morduch , Rachel Schneider (SVP)

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What the financial diaries of working-class families reveal about economic stresses, why they happen, and what policies might reduce them

Deep within the American Dream lies the belief that hard work and steady saving will ensure a comfortable retirement and a better life for one's children. But in a nation experiencing unprecedented prosperity, even for many families who seem to be doing everything right, this ideal is still out of reach.

In *The Financial Diaries*, Jonathan Morduch and Rachel Schneider draw on the groundbreaking U.S. *Financial Diaries*, which follow the lives of 235 low- and middle-income families as they navigate through a year. Through the *Diaries*, Morduch and Schneider challenge popular assumptions about how Americans earn, spend, borrow, and save--and they identify the true causes of distress and inequality for many working Americans.

We meet real people, ranging from a casino dealer to a street vendor to a tax preparer, who open up their lives and illustrate a world of financial uncertainty in which even limited financial success requires imaginative--and often costly--coping strategies. Morduch and Schneider detail what families are doing to help themselves and describe new policies and technologies that will improve stability for those who need it most.

Combining hard facts with personal stories, *The Financial Diaries* presents an unparalleled inside look at the economic stresses of today's families and offers powerful, fresh ideas for solving them.

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

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From Reader Review The Financial Diaries: How American Families Cope in a World of Uncertainty for online ebook

David says

based on a study following (mostly) impoverished American families over the course of a year (2012), with detailed tracking income, spending, savings. Six in-depth case studies liven up the narrative. Main take-home seemed to be that snapshots [X % are food-insecure, Y % are below the poverty line Z % have nothing saved for retirement) miss a lot of the action, in that many are "episodically" poor as a result of instability in both expenses and income.

There's a little bit of bait for "OMFG what are you thinking?" (Sarah and Sam spend 600 on HS graduation party for their kid.....in the same month they can't pay electric bill and get the lights cut off [p. 51]), but for the most part it's a sympathetic portrayal of people struggling to cope with complex challenges. Ex: the "make it automatic/pay yourself first" advice re how to save may not fit well with a situation in which you might absolutely need to get your hands on all available cash quickly for a car repair so you can keep getting to work on time so you won't get fired so.....

some interesting (to me) findings, e.g., 95% of their sample reported having some kind of informal sharing or loan arrangement outside the immediate family during the course of the year -- loan to a cousin, borrowing from a better-off or more stable sister in order to buy kids Christmas presents, sending any extra pay back to relatives in home country, etc. etc., all of which is missed by journalism focused entirely on mortgage bubble, payday loans, and other flawed aspects of the formal system.

All told, if you really want to read about the desirability of having at least a 3-month emergency savings cushion, and why 529's may be an advantageous way to save for college expenses, this book is basically useless, but if you're interested in how people who are nowhere near even being able to consider such goals are trying to manage, this is an interesting account.

Sam says

The common view of poverty mistakes one of its symptoms—lack of income—as its root cause. From a policy perspective, this narrow view conveniently overlooks most of its complexities. If government has a role, even in obtaining and publishing economic data about the poor, surely it must start with a broader definition (the case in this book being a more ‘granular’ view of when families are poor at a given time) about what poverty *means*. This, in a nutshell, is the starting point for researchers Morduch and Schneider.

What makes people 'poor' isn't just lack of income, alone: it is one of economic volatility and chaos marked by lack of consumption—put simply, as a lack of food, housing, child care, transportation, or medical care that they require. To borrow an analogy from fluid dynamics, people in poverty are constantly in a boundary condition between smooth laminar flow in being able to make their financial obligations over the course of a month, say, and the turbulence of economic buffeting after a single delayed paycheck: an event that may lead to a cascading spiral of late payment fees and evictions, and generate social and economic costs far beyond the amount of the late check, itself.

Morduch and Schneider stress the need for newer smarter practices, ones that embrace incentives like the

EITC to harmonize income with demands of spending within a household. (How can anyone see the EITC at fed or state levels as a government handout?) They scrupulously avoid even the whiff of political malodor in this work—they're doing the hard kind of methodical study that lays solid foundations for good public policy, even if it is hard to compress their work into the kinds of sound bites that influence politicians.

Molly says

Probably more like a 4.5 star book for me, but I'm rounding up. The research adds to the conversation about fixing poverty. It also adds to our understanding of poverty as an episodic experience for most people, rather than a persistent state. It raises questions about the nature of "saving:" how long does money have to be unspent or unintended to be spent before it is considered "saved?" But it's going to be a tough read for anyone who isn't immersed in or fascinated by Americans' financial lives. You have to be somewhat fluent in data to fully appreciate this one, it's not like the pop-econ books that anyone could pick up at the airport and enjoy.

That said, if you are really interested in learning more about the financial lives of low- to moderate-income workers and don't mind processing some stats, this is a great read.

Benjaminxjackson says

Anyone working in the financial services industry should read this book. It is a look at the financial lives of working families in the lower and middle-class. It intersperses personal stories with big picture statistics to show how Americans' financial lives have become more volatile and complicated. While the book is working to uncover the source of problems in people's financial, these problems point to business opportunities for companies who can find ways to help people, save, budget, and deal with the income and expense volatility revealed by the research behind the book.

If I had any quibble with the book, it is that it was not longer and more detailed. Only a handful of the 235 families were profiled in the book. Revealing more of the stories would have made for a more powerful discussion of how even people who work hard and make sound financial decisions can find themselves struggling.

In a nation where so much depends on financial health, understanding how the environment is becoming increasingly difficult for working people is an important task. We will have to work to solve these issues if we want to move forward as a country.

Rahul says

Over the period of years, the conventional life system (life arc):– Gain education -> move to better jobs -> Reach peak income in middle age -> Retire - has changed.

And due to this change the financial certainty of an individual and their families have also altered. Job security is not the same as before. A gig economy has arised which often leads to volatile, seasonal incomes. Also, at the same time widening inequalities of income and wealth have contributed to the frustration of seeing a small part of the population rocket ahead.

There are a few possible reasons of the struggle which lower-middle income households (specific to the U.S)

—

- i. Jobs lost
- ii. Marriages unraveled
- iii. Illness

In all the above factors lead to a precarious financial condition. Not just that the poor earn less, income volatility compounds their problems.

A few surveys have been done by JP Morgan Chase, Financial Diaries and the Federal Reserve survey which have tracked the income flows of their respondents and the people's perception of their income volatility.

This book (The Financial Diaries) tracked 231 families from lower-middle class across the U.S for a period of 10 years. The families varied from single mother, family under debt, guy in his 40s living with his mother. The surveys have revealed certain not-so-obvious behaviors in the lower middle income behaviors w.r.t saving, borrowing and sharing.

Often the under-privileged do not get enough support from the financial institutions due to rigid set of requirements which do not take into account their lives and resultant financial conditions. When people have a bad credit score – they are CREDIT INVISIBLE. No wonder they turn to payday loans.

The great revelation from the survey was that people even if they are poor share to others in their network who are otherwise deemed as “credit unworthy” by the financial institutions. They lend on flexible terms and they know much better the ability of the borrower to repay as they have a much fuller picture of their lives. However, there is one limitation – there is a limit on how much they can lend. They can't lend to start a business.

The millennials do not trust the banks because of their predatory behavior. The book calls upon financial institutions to try have more fuller picture of the lives of their clients and not let them down when they are needed.

Alex Tang says

This is a far more academic book than I would have liked, with no real call to action for the average individual.

It is a very interesting subject that outlines Why American Families have this uncertainty, how they cope, and ends with rough ideas on how governments, companies, and organizations can seek to smooth out the financial uncertainty.

The most enjoyable parts were the stories underlying each topic, but I found myself often glossing over the economic studies and extensive research cited in the book.

It would be hard for me to recommend this the average reader, but it has fascinating material for policy makers, non-profits, or entrepreneurial individuals who are looking to do social good

Donna Hines says

"Among household earning less than twenty five thousand for the year almost twenty percent experienced extreme income volatility."

"When a longer commute for less pay for same work is a step up , it's time to fundamentally rethink our understanding of the challenges facing working Americans."

"Meanwhile better-off households not only earn more, they are much more likely to have steady earnings." Six point five million workers wanted full time jobs in 2015, or more hours from their part time jobs, but couldn't find them.

"Among diaries families 38% of working adults had two, three, or four jobs during the year."

"How do you stick to budget when your income for one half the year isn't close to average?"

"For instance as of 2016 PA Medicaid Application asks whether anyone in the household has a hard time predicting their income, but in the very next question requires applicants to do exactly that for the next 24 months in order to establish eligibility." Lets not fail to mention how tedious and time consuming filling and refiling has become over the years too.

Safety net programs designed to help those in need are not reliable nor steady even if you qualify.

"The government cuts off benefits if a family saves \$1000 or more." Taking on debt is the only way to build a credit score. Yet 10% are denied apartments based on poor credit rating and 6% denied employment.

"I don't have any money." "You can't save something you don't have."

So you try to use coping tools : save, borrow, or share for survival.

America desperately needs solutions that help offer a hand up not hand out. "Many families are not consistently poor and are instead regularly in and out of poverty."

How to break out of poverty is a good question?

Poverty includes volatility and illiquidity.

Public assistance applications need restructuring for smoother and quicker processing. Using labor market realities would help.

Eliminate specific approved expenses Ie. food/med care

Unpredictable pay and irregular work hours results in financial uncertainty.

"High costs, stagnant incomes, changes in labor market, public policy, and financial service industry have disproportionately affected poor and middle class families."

Tipped wages need vast improvements.

Equalization of statewide basics of food, shelter, and healthcare need to be completed.

Public money largely subsidize the rich not the poor.

Help people feel more secure and in control and you'll hit a home run for everyone involved across the board.

Bryn says

As is often the case, my rating is as much a reflection of what I expected from the book as what the authors ever intended to convey. I was expecting a more intimate portrayal of individual families' finances, but instead it was an essay detailing how the "working poor" (or "nearly poor" or "sometimes poor," as this book characterized them at times) cope with their financial realities, which often include expensive borrowing options and unequal incomes month-to-month. In addition, it discussed the actual strategies the families, such as "smoothing" (spending more when more comes in to make up for the months of less), and creative

savings methods--such as stockpiling food or purposely having too much withheld from a paycheck to increase the amount of your tax return--and informal borrowing networks. This book can certainly help to undue the totally false stereotype of the "welfare queen" and instead shows hard-working, resourceful people working in a system that isn't designed for them. I really enjoyed the book, even though it wasn't what I expected it to be.

Caitlin says

I've done a lot of reading (and some writing) on Financial Diaries and would have liked the authors to be bolder and more unequivocal in their takeaways and recommendations. They included many caveats and I didn't come away with specific, clear ideas about how to help the "sometimes poor" who are the focus on the book.

Jeff Lehn says

Sobering book. Eye-opening. Written by two academics, so a little dense at times. Based on in depth interviews with several Americans over the course of year that involved a lot of transparency. Interviewees were drawn from poor to lower-income to middle-income families. The impact of volatility of income was a big takeaway for me. And the creative ways many Americans are trying to save in an economy not working for them. So much of the financial advice we read about is totally irrelevant for a large portion of the population (i.e. save 10-15% of your income for 40 years and then retire). Also, the seismic shift of risk moving from employers to employees in terms of retirement, guaranteed hours, benefits.

Greg Strandberg says

This is a good book that profiles the constant struggles hardworking American families have with money these days. Many of those struggles come about because of fluctuations in monthly paychecks. There are good stories about real people that just can't seem to get ahead. Seems like the American Dream is long gone.

Bri (girlwithabookblog.com) says

***The Financial Diaries* details a study conducted by a research team directed by Jonathan Morduch and Rachel Schneider that investigates how families receive and spend income within a single year.** I picked this up per the suggestion of a colleague that it would be helpful background reading for a project I'm embarking upon soon and I'm so happy that I did.

This book dives into the fact that **we typically think of and analyze income in a way that is not compatible with how most families interact with money on a regular basis. Their study uncovers many essential pieces of family spending that we are missing when we think about income in more traditional ways.**

When we think about a family's annual income, we are often missing the spikes and dips of income that occur for families with inconsistent, and even sometimes, consistent income. For example, receiving a large tax refund might make a family's income spike in a predictable way that they count on, through putting off paying certain debts or making large purchases until they receive their refund check. Families with inconsistent income, such as those with work that is seasonally influenced or is related to regional events, often have to plan ahead and put large chunks of their money aside to cushion their income during months where their paycheck is lighter. There are many reasons why this is difficult for families to surmount and **this book does an excellent job of portraying these spending realities.**

My big takeaway from this book is that (somewhat obviously, but something I hadn't been able to articulately describe before) **a lot of families are "sometimes poor."** **The idea here is that families who appear to have middle income and possess the assets to be "stable" when you look at their family's annual income actually have moments of being sometimes poor, where their income is dramatically lower than it is at other times of the year.** Families confront this by trying to prepare for these dips in income, but also devote a lot of their income spikes to paying for purchases that were necessary during income dips. For these families, it becomes almost impossible to save for the future when they're constantly catching up.

This was a very nuanced, necessary reframing of spending and saving within American families. I highly recommend this book to anyone who wants a better understanding of income instability in America.

For more reviews, check out www.girlwithabookblog.com!

Mary Ellen says

This work contributed to my understanding of the impact of economic changes in our nation by highlighting through an extensive study the key phrase in book title--"uncertainty". Just how this uncertainty affects one's life due to spikes and dips in earning, unexpected spending demands, and difficulties in saving made it clear to me the challenge of poverty for those without financial tools or resources. Even worse, it seems that the precarious stance of so many may be understated by the fact that participation in the Financial Diaries would have little appeal to many poor citizens. This is a key read for anyone who wants to get a grip on forces affecting our country.

Trisha says

Highly recommend it for anyone working in consumer finance.

The book follows the financial lives of several poor to moderate income American families over the course of a year, including their cash inflows and outflows from their income, spending, saving, and sharing. The great thing about the book is that it is not just anecdotal. In fact, every anecdote is backed by a slew of data and studies, along with past and current attempts to tackle the problem.

While the stories didn't surprise me, the omnipresence did. I was shocked to learn that 58.5% of US workers in 2015 were paid on an hourly basis, leading them to be more affected by income volatilities and

unexpected expenses.

I would have liked to have the diaries also compare stories amongst richer and poorer families, and compare and contrast how spending and savings pattern varies. But overall, the book is very readable and tackles the main issues facing middle class America well.

Jonathan says

With data analysis personalized with the narratives of about a dozen individuals in different parts of the country, Jonathan Morduch and Rachel Schneider explore the financial situations of they many Americans who are struggling to get by. These people are not spendthrifts as conservative commentators and mainstream financial rhetoric may have you believe. They are people who face financial instability that makes it difficult to save--a problem driven by the irregularity or volatility of a lot of work and exacerbated by perverse incentives built into government policy (e.g., asset tests for benefit programs and sharp cliffs in means-testing work against the goal of saving, and most incentive programs are designed for the well-off). As the authors note, "poverty" is often not a persistent state, but a temporary state, with some people getting out of it and new ones falling into it. Both the volatility of work and one-time occurrences like illnesses, car crashes, broken AC units, etc. (or a coincidence of them) can tip people into poverty. (Underdiscussed is how low the federal poverty level really is.)

The authors discuss the various ways people manage to cope with financial instability, but ultimate solutions, as they address in their last chapter, will require government action--higher wages, stronger labor rights, fairer scheduling, a stronger safety net, better financial regulations, etc.
