Book Review: The Financial Diaries: How American Families Cope in a World of Uncertainty by Jonathan Morduch and Rachel Schneider

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In **The Financial Diaries: How American Families Cope in a World of Uncertainty** *,* **Jonathan Morduch** *and* **Rachel Schneider** *focus on the volatility of domestic finances in the USA, presenting the findings of a new study based on the diaries of 235 households. In identifying the shared experience of financial uncertainty and the impact on people's lives, this book provides a strong case that a new policy agenda is needed to tackle economic insecurity, writes* **Joe Lane***.*

The Financial Diaries: How American Families Cope in a World of Uncertainty **. Jonathan Morduch and Rachel Schneider. Princeton University Press. 2017.**

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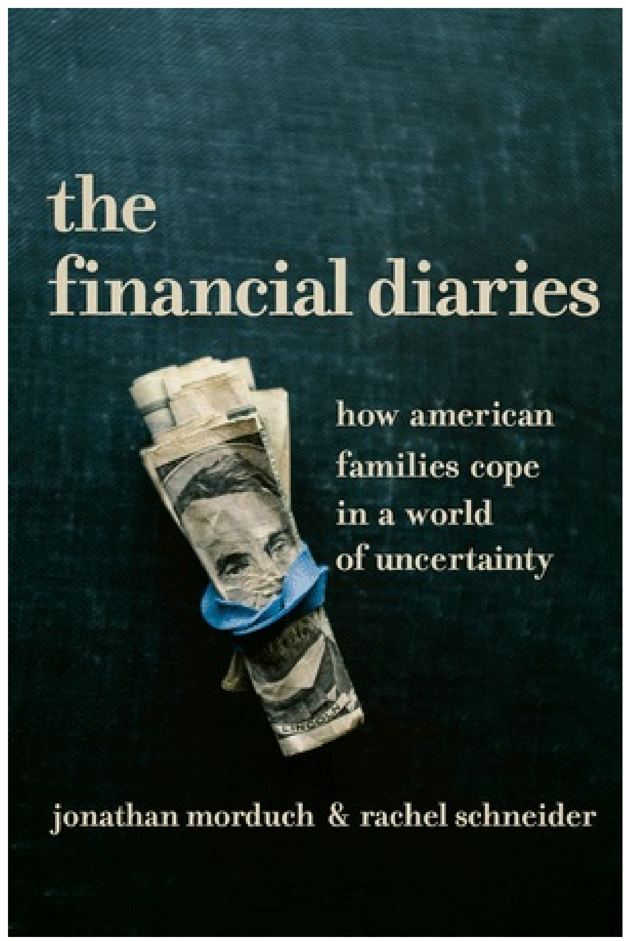

Political and media attention on the increasingly precarious nature of work has been fuelled by the high profile, often controversial, growth of the 'gig economy'. Insecurity, however, runs deeper than recent changes to the labour market. For many people, it is the volatility caused by the predictable challenges of everyday life, as well as the lack of a reliable paycheck, that makes it difficult to make ends meet.

In the twentieth century, researchers like Michael Harrington exposed the extent of extreme poverty in the US. In turn, they helped to build the intellectual foundations for policies that aimed to combat that poverty. Though the problem of extreme poverty is by no means consigned to history, an equivalent success for researchers in the twenty-first century might be to do the same for insecurity. *Financial Diaries: How American Families Cope in a World of Uncertainty* succeeds in shining a light on the extent and experience of volatile household finances in the US. Whether it helps to build the case for policies to target insecurity will depend on its reception.

The primary value of Jonathan Morduch and Rachel Schneider's work lies in the uniqueness of the research. The book is based on diaries with 235 households, conducted in five states across the US: Ohio, Kentucky, California, Mississippi and New York. Building on research in low income communities, including by Morduch, the diaries recorded every transaction made by households over the course of 2012-13. The resulting 300,000 transactions give an unrivalled insight into the cash flows as well as the hidden rhythms, concerns and aspirations of people's financial lives.

The structure of the book is clear. There are three main sections: the first describes how insecure US households have become; the second, how they cope; and the third sketches what that means for how we should think about poverty and what might be done about it. Section One contains the two most illuminating chapters.

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In the first chapter, the researchers focus on household earnings. Much of the content is familiar. The decline of manufacturing and trade unions, the shifting nature of work and the rise of contingent, or 'gig', labour are all cited as reasons for the growing volatility and insecurity of people's incomes. The diaries allow the authors to dig below the surface and add colour to that picture. For every new statistic – nearly half of participant households had a gain or loss of income of 25 per cent or more from one year to the next – there is a detail no national survey could tell you. For instance, for one participant, Janice, a card dealer in Mississippi, a cause of income insecurity was the fact that in odd years – when Mississippi State's football team plays two of its key fixtures away – she missed out on two good paychecks.

If the first chapter is rich but often familiar, in the second chapter – which focuses on spending – the unique contribution of the research is even clearer. Spending is the side of the household balance sheet that is often overlooked by researchers. Focusing, as in Chapter One, on one household, the researchers show how Sarah and Sam, while ostensibly middle-class with an income of $65,000, often struggle to make ends meet. The diaries allow the researchers to see why. Each time the researchers visit the family they have had another major expense: three car breakdowns, two graduations and a burst water pipe, to name a few.

Sarah and Sam's experiences, like Janice's in Chapter One, are not anomalies. On average, the research found that spending is almost as volatile as income. Typically, households had five months in the year where their spending was either 25 per cent above, or 25 per cent below, their average monthly spending for the year.

Three important arguments run throughout the book. The first is that insecurity and uncertainty do not just make it difficult for people to make ends meet; it often directly conflicts with aspirations of mobility. The diaries show both sides of the coin. One participant, Jeremy, a car mechanic, moved to a lower paid, but more stable job. In contrast, Sarah, who we meet in Chapter Two, continued to aim high by studying for a college degree instead of a full-time job. The consequence for Sarah and her family was sacrificing stability in the short term.

The authors are also carefully critical of the most common response to the type of challenges faced by the diaries' households: namely, better budgeting. The assumptions made by too many financial education initiatives about how households live mean they are often irrelevant – focusing on long-term goals and the allocation of spare resources. Moreover, they often make moral judgements about the use of money: people who can't manage their money use 'debt'; those who can use 'credit'.

When you step back from a spreadsheet, many 'non-essentials' look more like what one participant refers to as 'really really needs'. What keeps people from building savings isn't a 'lack of awareness or a lack of discipline. Rather, it's that the day they're saving for isn't very far away' (96). In fact, the researchers found that while those who performed better on financial literacy tests were more likely to have lofty savings goals, they were only slightly more likely to actually have those savings. The reality of people's lives, rather than their attitude or aspirations, had a more dramatic effect on their financial management.

The third, and most important, theme of the book is highlighting the commonality of uncertainty. The diaries' households were deliberately diverse: 23 per cent were classified as poor and 26 per cent earned more than twice the poverty line. Yet, nearly a third of participants in the latter group spent at least one month below the poverty line. While the diaries' participants were not nationally representative, statistics from the Federal Reserve, the University of Michigan's Panel Study of Income Dynamics and from the JP Morgan Chase Institute's analysis of Chase accounts are used throughout to corroborate Morduch and Schneider's findings. Volatility is both widespread and getting worse.

For many, the long arc of the lifecycle theory of saving simply does not reflect the reality of their experiences. The causes of their insecurity are 'not infrequent disruptions to basic steady income […] the base condition is unsteady' (34). Deviations from that arc are not noise: instead, 'the noise is the story' (11).

On that final point, the book could be more explicit. In the introduction, uncertainty is described as a form of 'hidden inequality'. There are two weaknesses to that framing. First, it aligns the challenge of volatility and uncertainty with an often intractable political debate. That is likely to trigger instinctive rejection by some policymakers. Second, as a social problem, inequality is more abstract and less relatable. Unlike inequality, financial uncertainty is tangibly experienced across income groups and, as the diaries demonstrate, the impact on people's lives is stark. It is the commonality of the uncertainty exposed in *Financial Diaries* that provides the strongest case that a new policy agenda to tackle insecurity is needed.

Joe Lane is a former history teacher and now works as a researcher for a national charity. His research focuses on household finances, personal debt and consumer markets.

Note: This review gives the views of the author, and not the position of the LSE Review of Books blog, or of the London School of Economics.