US Financial Diaries

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Income share of the top 10%, U.S.

- 1910: 35%
- 1930: 41%
- 1950: 41%
- 1970: 35% (decline)
- 1990: 48%
- 2010: 48%

Key events:
- Great Society Legislation
- Union decline
- Automation, Globalization
US Poverty Rate, 1959-2010

Year

Poverty Rate
"Routine" Jobs Shrinking

Middle-skill jobs shrinking

Large declines in income became much more prevalent

*Frequency of Declines in Income of 50% or More*

3-year moving averages of 2-year changes. Shaded areas correspond to recessions.

Source: Dynan, Elmendorf, and Sichel, PSID
Month-to-month ups and downs
Life is lived day to day, month to month
Problem: We have annual data mostly
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CALIFORNIA
San Jose & environs
Urban & rural
46 hh; 78 adults

EASTERN MISSISSIPPI
Rural
50 hh; 87 adults

OHIO/KENTUCKY
Cincinnati & environs
Small town & rural
69 hh; 130 adults

NEW YORK CITY
Brooklyn & Queens
Urban
79 hh; 158 adults

PRELIMINARY DATA - DO NOT CITE
High-frequency data
Households surveyed every 2-4 weeks

INCOME

244 households

ASSETS

316,763 cash flows

CASH FLOW

100 spending categories
38 income types
69 financial instruments
Garza Family Income

- Median Monthly Income: $2840
- Median Employment Income from Recurring Sources: $1600

Turn to pawn shops, costly loans
Spikes and Dips
Few families have steady income

+ 25%

Average Income

- 25%
Five spikes/dips per year on average

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2.7 Spikes

+ 25%

Average Income

- 25%

2.7 Dips
Typical causes

- **Work hours** rising and falling
- Lumpy **payments** (tax refunds, etc.)
- **Health problems** and **emergencies**
- **Predictable childcare** and **transportation needs** (with uncertain timing and size)
- **Shifting household membership**
Spikes and dips
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Income Spikes or Dips
Per Household per Year
Self-reported month to month income variability

SHED - Federal Reserve, 2013 Survey of Household Economics and Decisionmaking (7/14)

“Often varies quite a bit from one month to the next”

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Percent of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $25,000</td>
<td>10%</td>
</tr>
<tr>
<td>$25,000-$49,999</td>
<td>20%</td>
</tr>
<tr>
<td>$50,000-$74,999</td>
<td>20%</td>
</tr>
<tr>
<td>$75,000-$99,999</td>
<td>10%</td>
</tr>
<tr>
<td>$100,000 or Higher</td>
<td>20%</td>
</tr>
</tbody>
</table>

“Some unusually high or low months”

SHED: Implemented in 9/2013. Nationally-representative sample. Online panel of 50,000 individuals sampled randomly. 6,912 asked to take the survey. About 60% (4,134) agreed. Quick survey (19 minutes median time)
$2.00 a Day
LIVING ON ALMOST NOTHING IN AMERICA

Kathryn J. Edin & H. Luke Shaefer
Economic Inequalities

Income
Wealth
Steady, reliable, predictable finances
Q: Which of the following is more important to you?

A. Financial Stability
B. Moving up the income ladder

Pew: 92% choose A
Q: Why care about income volatility?
“Consumption smoothing”
Little effect of volatility

Spending depends on permanent income, not current income

- Spending
- Income
- Save
- Dis-save
Coefficient of variation
Excluding tax refund months, US Financial Diaries, n=216

Income: 38%
Spending: 36%
Puzzle: Coefficient of variation

Excluding tax refund months, US Financial Diaries, n=216

<table>
<thead>
<tr>
<th>Group</th>
<th>Poor</th>
<th>Near Poor</th>
<th>Moderate Income</th>
<th>Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>51</td>
<td>34</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Spending</td>
<td>41</td>
<td>34</td>
<td>35</td>
<td>33</td>
</tr>
</tbody>
</table>

Income and spending variation are compared across different income levels.
Why is spending volatility so high?

**Version 1: Illiquidity**

Extreme case:
Correlation = 1

- **Income**
- **Spending**
But: “Mismatch”

MISMATCH:
61% with no income spike

25% when income is below median

MATCH: 39% of spending spikes align with an income spike

MATCH: 61% with no income spike

25% when income is below median

Income Spending
Short-term saving
Now Soon Later
Overspending now

Saving for Soon

Saving for Later
Most savings are spent “soon”

Checking: 92% spent within a year

Savings: 61% spent within a year

<6 months: 85% spent
6-12 months: 44% spent
1-3 years: 17% spent
3+ years: 3% spent
71 percent of Americans surveyed face difficulty saving because of expenses they didn’t plan for.
Structure  Flexibility

Fundamental saving tradeoff
The Bank of Mom
“Binge saving”
Saving by grabbing spikes
Conclusion
Inequality and money

• Started with poverty and income (1960s)
• Then focus on assets (1990s)
• Needed: cash flows & financial management

• Intra-year volatility deserves more attention.
• Continuing question: Do short-term problems translate into long-term problems?
Final thoughts

- Volatility is a big part of today’s financial lives.
- Low saving balances ≠ reckless spending
- Consumption smoothing competes with needs for big lumpy sums
- Families have strategies. Financial institutions can help them do better.
- Agenda: Good jobs / good finance
Thank you

www.usfinancialdiaries.org