Press Coverage For:


2018/2019 COVERAGE
By Noah Smith

(Bloomberg Opinion) -- Why would economists rather talk about efficiency than inequality? Having lived among them for a while, I don’t think the reason is what many people think. The common narrative on the political left is that economists are shilling for the rich, focusing on growth in order to draw attention away from how a few are gaining enormous wealth.

But a more likely explanation is that economists are trying to avoid getting entangled in politics. In economics parlance, a Pareto improvement — named for Italian economist Vilfredo Pareto — happens when the economy changes in a way that makes life better for some people without leaving anyone worse off than before. Economists typically concentrate on looking for these win-win situations, because Pareto improvements would theoretically be able to please everyone at once — theoretically avoiding the need for them to take one side or the other in political battles. Contrary to the old adage about free lunches, economists are always on the lookout for them.

But Pareto improvements are hard to find. In particular, one thing that makes win-win situations very rare is the existence of social preferences — i.e., when people care about not just what they have, but what their neighbors have.

Here’s an example. Suppose two neighbors, Pete and Charlie, each only care about the size of their own TV. In that case, giving Pete a bigger TV, but leaving Charlie’s the same, is a Pareto improvement — it makes Pete better off without hurting Charlie. But now suppose that Pete and Charlie each would resent it if the other had a bigger TV. Now, giving Pete a bigger one will arouse Charlie’s resentment, meaning that someone has been hurt — thanks to social preferences, it’s harder to find a Pareto improvement. In the extreme worst-case scenario, where Pete and Charlie each only care about the relative size of their
TVs, no Pareto improvement is ever possible, because one person’s gain is always equal to someone else’s loss. In reality, people probably aren’t that purely motivated by competitiveness and envy — people really do want bigger TVs not just to make their neighbors jealous, but because bigger screens are nice. But social preferences are almost certainly real, and they complicate economists’ efforts to find win-win situations for society.

A recent paper by economists Sumit Agarwal, Vyacheslav Mikhed and Barry Scholnick shows just how pervasive these competitive instincts are. They looked at what happened to Canadian households’ financial outcomes when their neighbors won the lottery. Obviously, neighborhoods with lots of households that play the lottery in the first place are different from other neighborhoods, so Agarwal et al. compare households that won big prizes with households that won small prizes. They then looked at neighboring households, to ascertain whether envy of the winners’ newfound riches motivated them to spend beyond their means.

The authors find that when someone wins a bigger prize, their neighbors start to borrow more, and tend to declare bankruptcy more, compared to people whose neighbors won the smaller prizes. That’s strong evidence that when people’s neighbors start to spend more money, people are motivated to try and spend more to keep up with them, even if doing so comes at the cost of unsustainable borrowing. When they see their lottery-winning neighbors flaunting new cars, home improvements or other conspicuous consumption, the feelings of competitiveness and envy are so strong that they can even overwhelm financial good sense. Agarwal et al.’s research tends to agree with earlier findings. A 2011 paper by economists Peter Kuhn, Peter Kooreman, Adriaan Soetevent and Arie Kapteyn, for example, found that the neighbors of Dutch lottery winners buy more cars.

This obviously has implications for financial bubbles and the theory of business cycles. If housing bubbles like the one the U.S. had in the mid-2000s act like lotteries — if people who manage to flip their house for a huge gain are like lottery winners, and their neighbors borrow to keep up appearances — then this might be another link between bubbles and debt crises. It’s also another reason to worry about inequality. In the
U.S. and many other nations, inequality has risen in recent decades. Here’s the income Gini coefficient, a common measure of income inequality, with higher numbers representing greater disparity:
This inequality could be motivating Americans to spend more and save less, which increases the risk of debt crises, and also reduces investment and therefore makes future generations poorer.
But social preferences also complicate efforts to reduce inequality. The same competitive instinct that applies to lottery winnings may also apply to government transfers. A 2008 paper by economists Manuela Angelucci and Giacomo De Giorgi found that government cash transfers in Mexico increased borrowing and reduced saving among households that didn’t receive the transfers.
So the existence of social preferences means that governments should try to design welfare programs that either flow to everyone equally — like universal basic income — or seem fair in some way, such as disability or age-based programs. Otherwise, well-intended redistribution may end up arousing envy among those who don’t receive the checks.
In a world of social preferences, everything becomes more complicated. But that appears to be the world we live in, and we must deal with it accordingly.

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Does a lottery winner live nearby? That could spell trouble

By Katie Gibson

May 30, 2018

Many lottery winners rue the day they purchased their tickets. That's because they ran into the well documented curse of landing an unexpected windfall. That sentiment is likely shared by the winner's neighbors, who react to new wealth in the hood by engaging in conspicuous consumption at their own financial peril.

People who win the lottery are more likely to declare bankruptcy than those who don't, and such pitfalls are also shared by those living nearby, according to a working paper from the Federal Reserve Bank of Philadelphia.

Looking at data from 2004-2014 involving 7,337 lottery prizes from an unidentified Canadian province, economists found a household winning the equivalent of the median annual income tended to increase its neighborhood's bankruptcy rate by 6.6 percent.

"Our main finding is that the larger the dollar magnitude of a lottery prize of one individual in a very small neighborhood, the more subsequent bankruptcies there will be from other individuals in that neighborhood," wrote Georgetown University's Sumit Agarwal, Vyacheslav Mikhed of the Philly Fed and Barry Scholnick of the University of Alberta.

The researchers found that bankruptcy filings of those with a jackpot winner in the vicinity showed increased spending on the kinds of things all would see, like cars, but not on big-ticket items for inside the home.
Neighbors who filed bankruptcy were also more apt to make high-risk investments and to borrow more than those who didn't live near lottery winners, in line with the view that they were looking to score a big win in the market and be better able to keep pace with their local jackpot winner.

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Keeping Up With the Joneses: Neighbors of Lottery Winners Are More Likely to Go Bankrupt
Seeing someone else get rich puts people into spending mode

By Peter Coy
May 29, 2018, 7:00 AM EDT

As if you needed proof that trying to keep up with the Joneses isn’t a good idea, here it is: Close neighbors of lottery winners in Canada tended to spend more on conspicuous goods, put more money into speculative investments such as stocks, borrow more money—and eventually declare bankruptcy.

“The larger the dollar magnitude of a lottery prize of one individual in a very small neighborhood, the more subsequent bankruptcies there will be from other individuals in that neighborhood,” says the latest version of a working paper from the Federal Reserve Bank of Philadelphia by Sumit Agarwal of Georgetown University, Vyacheslav Mikhed of the Philadelphia Fed, and Barry Scholnick of the University of Alberta. It’s titled: “Does the Relative Income of Peers Cause Financial Distress? Evidence from Lottery Winners and Neighboring Bankruptcies.”

An earlier version of their paper got a flurry of publicity in 2016 by presenting evidence from bankruptcy filings that neighbors were trying to keep up with the lottery winner in their midst. A telltale sign was that they raised spending on things that everyone in the neighborhood could see, such as cars, but not on indoor items like furniture.

The new version adds some important insights, co-author Mikhed explained in an email. One is that neighbors who filed for bankruptcy tended to have more of their assets in high-risk investments such as stocks vs. low-risk ones like insurance and cash. That’s consistent with the theory that they were hoping to make a killing in the market and even things up with the lottery winner. Another new finding: Neighbors of lottery winners tended to borrow more, compared with Canadians who weren’t neighbors of lottery winners.
The researchers focused on small lottery winnings, ranging from C$1,000 to C$150,000 (roughly $800 to $120,000). One reason for the focus on small winners was that winners of bigger jackpots tended to move out of their neighborhoods. A second was that winners of small prizes were more likely to keep their good luck a secret. The researchers theorized that people might not amp up their own spending so much if they knew that a lottery prize was the reason for their neighbor’s sudden prosperity.

The economists collected data on 7,337 lottery prizes from an unnamed Canadian province, dating from 2004 to 2014. They narrowed their search to the effects on neighbors within areas that share six-digit postal codes, which have a median of just 13 households. They found that a prize equal to the median annual income (C$29,000) tended to raise the bankruptcy rate of the neighbors by 6.6 percent.

One heartening sign: There was no evidence that the people who filed for bankruptcy were especially likely to list gambling as a cause of their financial distress. That indicates that they weren’t superstitiously buying more lottery tickets in hopes that the neighbor’s good luck would rub off on them.

Previous research had shown that neighbors of lottery winners spent more on conspicuous consumption. Theoretically, though, they could have done so in ways that didn’t jeopardize their financial health—say, by working more to increase their incomes. The new study shows that neighbors—some of them, anyway—did indeed imperil their financial health to keep up with the Joneses.
Sumit Agarwal, Vyacheslav Mikhed and Barry Scholnick examined “whether relative income differences among peers can generate financial distress.” After studying lottery winnings, they find in a Federal Reserve Bank of Philadelphia working paper, “that the dollar magnitude of a lottery win of one neighbor increases subsequent borrowing and bankruptcies among other neighbors.” They argue their paper “provides new evidence on the hypothesis that social comparisons among peers with different levels of income can generate unsustainable increases in debt and financial distress.”
There's now analytical proof behind 'keeping up with the Joneses'

- Social pressure to compete with neighbors with sudden lotto riches is so great that it leads to a significant increase in both the amount of credit and mortgages people are willing to incur, a new research paper finds.

- "The magnitude of lottery wins increases the value of risky financial assets (securities) on the balance sheets of nonlottery-winning neighbors," a Federal Reserve study finds.

- Flashy spending by lottery winners appears to pressure neighbors into spending more themselves.

The larger the lottery reward a lucky gambler collects, the more likely his or her neighbors are to file for bankruptcy, according to a new working paper from the Philadelphia Federal Reserve that sought to find analytical backing for the "keeping up with the Joneses" theory.

The research found that social pressure to compete with one's neighbors on exciting new purchases is so great that it leads to a significant increase in both the amount of credit and mortgages people are willing to incur, the paper finds.

"We find that the magnitude of the neighbor's lottery win is related to the dollar value of more visible, but not less visible consumption assets," wrote Sumit Agarwal of Georgetown University and Vyacheslav Mikhed of the Federal Reserve Bank of Philadelphia.

"The magnitude of lottery wins increases the value of risky financial assets (securities) on the balance sheets of nonlottery-winning neighbors at the time of bankruptcy filing," they added. "On the other hand, the magnitude of the lottery win has no effect on cash and (weakly) decreases less risky assets."

The researchers studied the effects a one-time income boost for one person on the financial stability of that person's neighbors. Limiting the sample to a collection of small neighborhoods in Canada, the researchers wrote, helped guarantee that neighbors witnessed any obvious changes in consumption by lottery winners. The one lucky winner, they reason, should be clear thanks to
fla$h$y purchases like a new car or a larger house.

Among its main findings, the study observed that a lottery win equal to the median annual income for the communities studied increases the rate of bankruptcies among neighbors by 0.03 in the three years after the win, a 6.59 percent increase relative to the average bankruptcy rate.

In turn, that type of "conspicuous consumption" pressures neighbors into spending more themselves. But while social pressures can lead to compelling academic theories, upticks riskier borrowing appeared to have more insidious economic implications.

While the size of the lottery win didn't affect neighbors' credit in the years prior to a lottery win, the researchers found increases in both the number of accounts as well as the dollar balances after lottery wins, implying a net increase in borrowing in neighborhoods following an isolated income shock.

In terms of magnitude, Agarwal and Mikhed found that a 10 percent increase in the lottery amount would buoy all credit accounts by 0.003 and total balances by $134 in the second year after the win.

They also observed a shift in the housing market; according to their calculations, a 10 percent increase in the lottery prize would result in 0.0007 additional mortgages and an additional $165 in mortgage balances in the second year after the win.

"Taken together, these findings are suggestive of the increased borrowing of neighbors because of relative income comparisons, leading to financial distress," Agarwal and Mikhed wrote.

"While the results in this paper are based on microgeographies, [by] examining the very close neighbors of lottery winners, future research could possibly examine whether these results are important for the entire economy," they said.
Psychology Today

Is It Wise to Give Away Your £115 Million Lottery Win?

Giving away fourth biggest lottery prize in UK history—what could go wrong?

Posted Jan 07, 2019

By Dr. Raj Persaud

On New Year’s Day, Frances and Patrick Connolly from Northern Ireland became the fourth biggest lottery winners in UK history, scooping a jackpot of £114,969,775, from the EuroMillions draw.

At one of the strangest press conferences given by any lottery winners, the couple unexpectedly announced they were going to personally donate the largest share of their winnings to 50 friends, family members, and charities.

Many friends and family will become millionaires overnight, they explained, yet most on their secret list, at the time of the press conference, remained unaware of their good fortune.

The couple, married for 30 years and with three daughters, plan to share this amazing news with friends in person. “The pleasure for me will be seeing their faces and asking what they want us to do for them,” said Mrs Connolly, as reported in The Daily Telegraph Newspaper.

Mrs. Connolly intends to complete her Ph.D. in Clinical Psychology despite the record winnings, but what would psychologists recommend in these circumstances?

The UK media have almost universally praised the couple for their generosity, but this may be naïve. Powerful emotions might become unleashed in these circumstances, perhaps in particular envy, in those who know the couple but who get passed over.

One key possible psychological problem for the Connollys is that they may inadvertently sow the seeds of discontentment in those who are not selected to benefit from their largess. Surely there’ll be friends and family who will wonder why they weren’t selected, and as result, for every one person who receives the Connollys’ windfall, there might be several others who are left to experience simmering resentment as the sole result of this ‘win.’

At the extraordinary press conference, Mrs. Connolly, 52, complained she was already agonizing over how to choose between friends. She was crying herself to sleep given that she couldn’t help everybody. It was also going to be ‘heartbreaking’ receiving begging letters from the public.

There is a world of difference, psychologically, between giving money to charities and causes as opposed to giving publicly to friends. Personal connections, psychologists might argue, could more inevitably engage in the powerful psychological competitive process of who got what and why.

There is already some intriguing scientific evidence that similar wins unleash a comparison mechanism in those close to lottery winners and that this ends in very bad place, psychologically, even ultimately producing financial ruin.

Maybe you should also be careful in ‘playing god’ by altering people’s lives in such a dramatic manner. Additional research finds an unexpected impact on marriage rates of single women following big prize wins.
Sumit Agarwal, Vyacheslav Mikhed and Barry Scholnick, recently published a study which examined what happened to the close neighbors of Canadian lottery winners, uncovering a tendency for more subsequent bankruptcies.

The authors of the study argue for a ‘keeping up with the Joneses’ effect, whereby when your neighbor suddenly has more money (through a lottery win), you automatically tend to spend more on visible extravagances. But as these neighbors haven’t experienced a hike in earnings, compared to the lottery winners, this means they often end up spending what they can’t afford, ending up bankrupt.

The study, entitled, ‘Does Inequality Cause Financial Distress? Evidence from Lottery Winners and Neighbouring Bankruptcies’ could be said to directly measure this envy or psychological comparison effect in those living physically close to a lottery winner. The finding suggests that for a significant number of people, being near to those who get rich suddenly, is not a positive experience.

The authors of the study argue that experiencing a drop in relative income causes the poorer to increase spending to match the extravagant displays of consumption of the rich: “keeping up with the Joneses.” But this increased consumption of the relatively poor must necessarily be financed by debt. This eventually leads to financial stress for poorer neighbors of lottery winners.

The authors of the study from the National University of Singapore, Federal Reserve Bank of Philadelphia and the University of Alberta, used bankruptcy filings in Canada provided by the Canadian bankruptcy regulator. Examining specifically whether living near to lottery winners meant you were more likely to go bankrupt in the two years following a lottery win, the study examined very close neighbors of the lottery winner. These were residents within the same six-digit postal code, meaning an average of 13 neighboring households.

The study found that an increase in the dollar amount of a lottery prize increases the number of subsequent bankruptcy filings among close neighbors of the winner.

The study, published in the Federal Reserve Bank of Philadelphia Working Paper Series, contends that the sudden arrival of obvious income inequality, which is what happens when someone in your neighborhood wins the lottery, induces poorer neighbors to consume more visible (rather than invisible) commodities to “keep up with the Joneses.”

This leads to additional and unsustainable borrowing among the relatively poor financing this additional conspicuous consumption, eventually resulting in financial distress and bankruptcy.

As Canadian bankruptcy data include the full balance sheet of bankruptcy filers, this allowed the researchers to investigate the assets owned by each bankrupt.

Assets of bankruptcy filers can be divided into conspicuous assets that are “visible” such as cars, houses, and motorcycles, as opposed to assets ‘invisible’ to neighbors, such as cash and financial assets.

Those who filed for bankruptcy after a larger lottery win of a close neighbor had significantly larger holdings of visible assets (e.g., cars, motorcycles, houses) relative to the holdings of these same visible assets by those who filed for bankruptcy after smaller lottery wins of a close neighbor.

While the research examined small neighborhoods around lottery winners, it may have implications for the economy at large. It could be that income inequality and income comparison may lead to excessive and unsustainable debt accumulation among the less well-off. The authors of the study point out that income inequality peaked in the periods immediately before the financial crises of 1929 and 2008.
The researchers also point to previous surveys asking individuals to estimate the income levels of their peers. Those who believe that they are poorer than their peers have higher levels of debt and greater likelihoods of financial distress.

Another study on the effect of lottery wins examined the impact on your love life. The research entitled ‘Lucky in Life, Unlucky in Love? The Effect of Random Income Shocks on Marriage and Divorce’ found that marriage rates among single women fall by forty percent as a result of winning big on the lottery.

The research by Scott Hankins from the University of Kentucky and Mark Hoekstra from the University of Pittsburgh, examined the effect of the Florida Lottery, comparing recipients of large prizes to those of smaller ones.

One interpretation of their results, published in the Journal of Human Resources, is that additional income makes single life more attractive. This effect was found for single women but not single men.

Nearly one in 10 single women will be induced not to marry as a result of a big money lottery win. Additional income encourages single women to remain unmarried.

Given the number of surprising consequences that researchers have uncovered following big money wins, it would appear that lottery winners should not assume that they can predict the seismic impact on those around them.

In a sense, their gamble has only just begun.

References


News.Com (Australia)

Study reveals neighbours of jackpot winners are more likely to go bankrupt
Alexis Carey, news.com.au
June 1, 2018 7:16am

WE’VE all heard of the “lottery curse” — jackpot winners who have ended up facing financial ruin despite their good fortune.

But now it turns out the neighbours of lottery winners also face a similar curse.

A new study has revealed people whose neighbours win big are more likely to take risks with their money which lead to bankruptcy.

The research, which was conducted by the University of Alberta in Canada and Georgetown University in the United States, found jackpot winners’ neighbours had a higher chance of ending up bankrupt than ordinary people.

• Question that brought Sanders to tears
• Man discovers he doesn’t own his own house
• Australia’s biggest bludgers revealed

According to the researchers, it’s all due to increased conspicuous spending, financial risk taking and excessive borrowing — in other words, it’s a case of “keeping up with the Joneses”, with neighbours of winners feeling pressured into splashing their cash.

Published in a working paper from the Federal Reserve Bank of Philadelphia, the researchers pored over Canadian data relating to lottery winners and bankruptcy claims from 2004 to 2014.

It centred around people who won less than $150,000, because people who won more than that tended to move away to ritzier areas, where they then lived among richer people.

The conclusion?

The bigger the lottery win in a neighbourhood, the more cases of bankruptcy there tends to be in the same area.

The total amount of cash borrowed also rose across the whole neighbourhood, relative to the amount won.

This trend occurs as neighbours of lottery winners tended to splurge on obvious displays of
wealth, such as new cars.

Interestingly, an earlier version of the study found neighbours of lottery winners did not tend to spend up on “non-visible” goods inside their homes, such as furniture, which their newly-wealthy neighbours were less likely to see.

“If your neighbour wins a million bucks, you’re more likely to go bankrupt than if your neighbour wins a thousand bucks,” Alberta School of Business economics professor Barry Scholnick told the Edmonton Journal.

“The explanation is this idea of conspicuous consumption. If your neighbour wins a lot and starts renovating their home or buys a boat, and you can see this, it’s likely to cause financial distress.

“What the study does is it provides statistical evidence for the idea of keeping up with the Joneses … We try to show off to our neighbours.”

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Originally published as You don’t want your neighbour to win lotto
Lottery winners' neighbors more likely to go bankrupt

Anne Stych, Contributing Writer
Jun 4, 2018, 9:05am EDT

You won the lottery? Great news. But maybe not so great for your neighbors.

Close neighbors of lottery winners who feel like they have to suddenly “keep up with the Joneses” are more likely to borrow money, spend more on goods, invest in stocks and eventually declare bankruptcy, a new study of Canadian lottery winners found.

A working paper developed for the Federal Reserve Bank of Philadelphia by researchers from the bank, Georgetown University and the University of Alberta showed that the larger the lottery winnings, the higher the rate of bankruptcy among neighbors.

The research focused on winnings of about $800 to $120,000, theorizing that winners of bigger jackpots might move out of their neighborhoods and that winners of smaller prizes might not broadcast their good fortune, Bloomberg reported.

The study said the wanna-bes spent more money on items everyone in the neighborhood could see, like cars, and put more of their assets in high-risk investments such as stocks, perhaps hoping to make quick money and “catch up” to the lottery winner.

There was no evidence to support that the neighbors lost their money gambling or obsessively playing the lottery themselves, just that they increased their conspicuous consumption.

Data showed that a prize equal to the median annual income of about $23,000 raised the bankruptcy rate of neighbors by almost 7 percent.
Thinking you're lucky none of your neighbors are winners? Maybe they are, but they're just keeping it quiet by going about their daily lives with little fanfare.

In 2016, as many as 80 percent of workers in America said that they’d keep working if they won the lottery, according to an Adobe Systems survey reported by Marketwatch.

People said they would continue to work because their job gives them a sense of purpose, because they feel they’re making an impact, because they’d miss their coworkers if they quit, or they’d be bored if they didn’t.
2016 Coverage
Winning the lottery can be hazardous to your neighbors’ financial health.

Research released this month by the Federal Reserve Bank of Philadelphia found a significant jump in bankruptcies among households living near someone who won a big lottery jackpot. The economists theorized that people may have seen the good fortune next door and felt pressure to accumulate more assets of their own, especially flashy purchases like cars, that they simply could not afford.

“Income inequality induces poorer neighbors to consume more visible (rather than invisible) commodities to signal their abilities to ‘keep up with the Joneses’ to their richer neighbors,” economists Sumit Agarwal, Vyacheslav Mikhed and Barry Scholnick wrote. “This tendency can lead to additional and unsustainable borrowing among the relatively poor to finance this additional conspicuous consumption, which can eventually result in financial distress and bankruptcy.”

Mr. Agarwal is a professor at the National University of Singapore, Mr. Mikhed works at the Philadelphia Fed’s Payment Cards Center and Mr. Scholnick is a professor at the University of Alberta. Their research was circulated in a Philadelphia Fed working paper and relies on administrative data from an unnamed Canadian province. They analyzed lottery prizes and bankruptcy filings over 10 years, sorted down to six-digit postal codes that on average contained only 13 households, revealing financial ripple effects on a lottery winner’s closest neighbors. They limited their analysis to neighborhoods with a single lottery win and excluded cases when lottery winners themselves filed for bankruptcy. They also omitted fixed-payout lottery prizes and very large jackpots.

The headline finding: For every $1,000 increase in the lottery prize, there was a 2.4% increase in bankruptcy filings by the winner’s neighbors over the next few years. “These results are more pronounced for low-income neighborhoods and high income-inequality areas,” they wrote.

Why would someone winning the jackpot cause someone living down the street to go bankrupt a year or two later? The economists argued that people who feel they are poorer than their peers may spend more in a conspicuous fashion, financing their purchases with debt. But that debt will need to be repaid, potentially leading to financial difficulties and even bankruptcy.

Messrs. Agarwal, Mikhed and Scholnick analyzed the Canadian bankruptcy data and found “evidence that those who filed for bankruptcy after a larger lottery win of a close neighbor have
significantly larger holdings of visible assets (e.g., cars, motorcycles, houses) relative to the holdings of these same visible assets by those who filed for bankruptcy after smaller lottery wins of a close neighbor,” they wrote. There was no similar difference for “invisible assets” like cash or pensions, they said.

In other words, when someone wins a big lottery prize, neighbors appear more likely to buy cars and remodel their houses to show that they can keep up—and go broke in the process.

By demonstrating what the economists described as “causal evidence on the link between income inequality and financial distress,” their paper adds to the recent flowering of economic research on the causes and effects—both individual and economy-wide—of wealth and income inequality, a hot topic well beyond academic circles. It also, they noted, adds to the growing use of data on lottery winners to examine the economic and social effects of sudden income windfalls.
Why lottery winners may make their neighbors go broke

By Emily Badger March 2

Other people's money makes us do strange things. A friend buys a new car, so we start daydreaming about one, too. The neighbors build an addition, so we start mulling the second mortgage that could finance a similar sunroom, because suddenly the house feels too small. We want what they have — to keep up with the Joneses.

Thanks to this impulse, economists worry that greater income inequality may get less wealthy people into trouble. If the neighbors around you start making — and conspicuously spending — a lot more than you do, your efforts to keep up could land you in serious debt. In fact, during periods of widening income inequality like the 1920s and the run-up to the housing bubble in the United States, when a larger share of income went to families at the top, just about everyone else was busy amassing debt.

This is a tricky thing to prove, though: that widening inequality causes financial problems for people not at the top. But recent research from the Federal Reserve Bank of Philadelphia offers fascinating evidence that this does really happen. The authors, Sumit Agarwal, Vyacheslav Mikhed and Barry Scholnick, looked at sudden and very local shocks in inequality — when individual households in Canada won the lottery. The bigger their lottery winnings, the study found, the more likely their neighbors were to file for bankruptcy.

We've all heard of lottery winners going bankrupt. But here the researchers were more interested in the effect of all this cash on the people who watched those winnings turn into nicer cars or home improvements. Canadian postal codes contain, on average, just 13 households, allowing the researchers to track thousands of lottery winners and their very immediate neighbors over time. They found that a $1,000 increase (in Canadian dollars) in lottery prize money caused a 2.4 percent rise in bankruptcies among those immediate neighbors over the next two years.

The balance sheets that bankruptcy filers must submit also show that people who lived near big lottery winners had larger holdings of visible assets like cars, motorcycles and houses, suggesting that their conspicuous consumption may have been what got them into trouble. The larger the lottery winnings, the higher the value of housing and vehicle assets for the bankrupt neighbors.

These effects were also stronger in lower-income neighborhoods and places that had wider inequality to start with. And the study implies that the original lottery prizes wouldn't have the
same effect if winners were using the money in less visible ways, like to pay off loans or pad their savings.

The researchers removed payouts larger than $150,000 from their dataset, and so the sums of money they're talking about here aren't Mega-Millions-like mind-boggling. The likelihood of a person filing for bankruptcy is also small to begin with, so while these higher odds are significant, they don't mean that people are filing for bankruptcy left and right.

Given that the rich and non-rich seldom live right next to each other — and that income segregation between them is growing in the United States — it's hard to say what these findings might mean for middle- and lower-income households that aren't in eyeshot of a one-percenter's new Tesla. But the results are in line with the wider worries that more inequality might also mean more financial distress.
Living Near A Lottery Winner Has A Surprising Downside

Trying to keep up with the Joneses could spell economic disaster.

02/16/2016 03:36 pm ET

When people win the lottery, their less-lucky neighbors often drive themselves into financial ruin trying to keep up, according to a provocative new study from the Federal Reserve Bank of Philadelphia. The more money the lottery winner gets, the worse off their neighbors become, the research suggests.

The paper’s authors — Sumit Agarwal of the National University of Singapore, Vyacheslav Mikhed of the Philadelphia Fed, and Barry Scholnick of the University of Alberta — looked at lottery winners and their neighbors in Canada. They found that for every $1,000 Canadian dollars ($720) a person won, the likelihood of a neighbor declaring bankruptcy increased by 2.4 percent.

The researchers also found that big purchases meant to signal wealth, which economists call “conspicuous consumption,” are behind the money troubles of people whose neighbors win the lottery.

The scenario goes something like this: Your newly rich neighbor buys a new car or two, and a motorcycle, and then a boat. She remodels her house. Every day, there are new deliveries and construction trucks passing your house, reminding you of just how banal your own perfectly average driveway looks. You don’t really have the money for a new car, but yours is so outdated, especially sitting next to your neighbor’s fancy new Tesla. The next thing you know, you’re burning up your credit card in an effort to keep up.

This paper isn’t just a warning in case the person down the street wins the jackpot, though. It’s a study that takes income inequality to its extreme conclusion and asks what happens to people who get left behind. And at a time when the divide between the economy’s haves and have-nots is widening, it’s worth considering what kind of effect the growing class of rich people is having on all of us.

We aren’t supposed to think about growing wealth as a zero-sum game in which one person’s gain is another’s loss. The basic theory of capitalism is that a rising tide lifts all boats, and when someone gets a big windfall, the markets give them an incentive to invest that money into other projects that will also make money, so the whole economy grows together.
This research, however, shows that really stark income or wealth inequality can have the opposite effect on households: It can drive poorer neighbors into debt. Thus, income inequality begets yet more income inequality. The question is, when does that become a cycle that cannot be stopped?
Study: lottery winners’ neighbors tend to spend themselves into bankruptcy

When someone wins the lottery, it can be bad news for his neighbor's finances. A new study from the Federal Reserve Bank of Philadelphia examines the relationship between lottery winners in a particular Canadian province and bankruptcies in the same province — it found that neighbors of lottery winners are unusually likely to go bankrupt, and the larger the lottery prize, the more likely bankruptcy becomes.

Specifically, every $1,000 in lottery winnings translates to a 2.4 percent higher probability of a nearby neighbor declaring bankruptcy.

The researchers have an explanation for why this happens, too. When people declare bankruptcy in Canada, they have to disclose all their major assets — things like houses, cars, boats, and motorcycles — to the courts. The researchers found that the larger the lottery prize, the more money bankrupt neighbors spent on big-ticket vanity purchases — and the more likely they were to run out of money.

The clever study is one of the first to provide statistically rigorous evidence for a claim that seems plausible but is hard to prove: that rising inequality causes people to spend beyond their means in an effort to "keep up with the Joneses." This is the idea that when someone's wealth suddenly increases, her neighbors — and probably her friends and relatives — feel pressure to spend more to avoid being upstaged. Ultimately, this kind of competition can leave everyone worse off.

And while big lottery winnings are rare, the study could have much broader implications. Critics of income inequality have long argued that large income disparities make people unhappy. The Philly Fed study provides further evidence for this point of view. While it focuses on lottery winners, the same basic problem is likely to arise anytime some people enjoy rapid income growth at the same time that others' incomes are not rising.
Why a neighbor winning the lottery can send YOU bankrupt: Trying to keep up with winners' spending makes people broke

New study reveals winning the lottery can push neighbours to overspend
Chance of neighbours' bankruptcy increases 2.4 percent per $1,000 won
The research suggests that sudden income gap leads to financial distress

By CHEYENNE MACDONALD FOR DAILYMAIL.COM


If your neighbour wins the lottery, you may want to consider relocating.
A new study examines the effects of income inequality in Canadian neighbourhoods, revealing that households near a lottery winner are more likely to declare bankruptcy.
As the lottery prize increases, the likelihood of bankruptcy does as well, linking financial distress to the widening income disparity as neighbours try to keep up.

A new study reveals how a sudden income gap between neighbours can push some people into bankruptcy.

The research found that for every $1,000 of lottery winnings, the probability of bankruptcy in the immediately surrounding area will increase by 2.4 percent.
Neighbours filing for bankruptcy commonly had 'conspicuous assets' of increased value, like cars and houses.

The bigger the neighbouring lottery prize, the more people were likely to spend.
But, invisible assets like cash and pension did not increase.
This suggests people spent more on showy material goods, a means of competing or keeping up with suddenly wealthy neighbours.

The study conducted by the Federal Reserve Bank of Philadelphia found that for every $1,000 of lottery winnings, the probability of bankruptcy in the immediately surrounding area will increase by 2.4 percent.

A sudden increase in wealth amidst a small community can put pressure on neighbours to keep up, thus prompting them to spend more on vanity objects, like cars and motorcycles, Vox explains.

The researchers investigated lottery winnings and bankruptcy filings within six-digit postal codes, generally containing about 13 households.
Lottery prizes of random amounts were studied to allow for comparison between varying sudden income gaps. The team found that a lottery win in a particular neighbourhood can be a major blow to the community, leading to a 'significant increase in bankruptcy filings within the winner's postal code,' within the first two years.
This is even more significant in low-income and high income-inequality areas.
The true cost of keeping up with the Joneses

DARAH HANSEN
Special to The Globe and Mail
Published Friday, Apr. 08, 2016 5:00AM EDT

The Globe’s monthly roundup of research from business schools.

Forget about keeping up with the Kardashians. It’s the Joneses next door that we should be worried about.

A new study by economist and professor Barry Scholnick of the University of Alberta’s business school in Edmonton puts some hard numbers on the social impacts of income inequality by breaking down what happens to the neighbourhood when someone wins it big in the lottery.

Dr. Scholnick, a long-time researcher into consumer bankruptcy, co-authored the study Does Inequality Cause Financial Distress? with Sumit Agarwal of the National University of Singapore and Vyacheslav Mikhed of the Federal Reserve Bank of Philadelphia.

The authors used data supplied by a Canadian lottery to track the winning ticket holders and measure the fallout of that luck on their closest neighbours.

What they found was for every $1,000 increase in the lottery prize, there is a 2.4-per-cent rise in bankruptcies among those living nearby.
“So, if your neighbour wins a large amount, you are more likely to go bankrupt than if your neighbour wins a smaller amount,” says Dr. Scholnick.

The study also found evidence that people’s visible assets – the money they spend on items everyone can see, such as a house, car or pleasure boat – are also linked to a neighbour’s winnings, according to the study.

The size of lottery prizes increases the value of visible assets, but not invisible assets such as cash and pensions.

The finding supports a century-old economic theory of conspicuous consumption.

“If your neighbour is richer than you, you try and keep up by buying things your neighbour can see. The problem is, it leads you into debt because you can’t afford to pay for it,” says Dr. Scholnick.

The professor says the study is not intended as a condemnation of lotteries. Rather, the randomness of a raffle offers an avenue into understanding the social impacts of money that can’t be reproduced scientifically.

“For us, we’ve had many, many years of knowing about this idea of keeping up with the Joneses. Many people have talked about it, but it’s been really hard to find rigorous statistical evidence around it,” says Dr. Scholnick.

“Our paper does that, possibly for the first time, using this idea of the lottery.”

The paper has been submitted for peer review, but has not been formally accepted by an academic publication. It was published by the Philadelphia Fed this past February.
Neighbours of lottery winners more likely to go bankrupt in futile attempt at keeping up with the Joneses, study finds

Jake Edmiston | February 29, 2016 | Last Updated: Mar 1 9:07 AM ET

Neighbours of a lottery winner are more likely to drive themselves to bankruptcy, says a Canada-based study that looks at the self-destructive side of “keeping up with the Joneses.”

The research paper, for the Federal Reserve Bank of Philadelphia, looked at people who lived in the same postal code as a lottery winner, giving a snapshot of how one winner’s newfound wealth can influence a small neighbourhood — since there’s an average of just 13 households per postal code.

According to the findings, released this month, it seems that as the wealthy neighbour made flashy purchases, those around them followed suit. And the bigger the prize, the more likely neighbours in the postal code were to go broke. In fact, for each $1,000 a neighbour won, bankruptcies rose by 2.4%, the three co-authors wrote.

In those postal codes, residents who filed for bankruptcy after a neighbour won the lottery had significantly more “visible assets” compared to “invisible assets” — which means they brought products their neighbours could actually see, like cars or motorcycles, rather than pensions or stocks.

The study is part of a broader effort to dissect exactly what went wrong in the lead-up to the great recession of 2008. Observers have noted that before 2008, income inequality spiked and debt levels ballooned in lower-income households. So the study set out to prove how a widening income gap can lead to financial problems for poorer people.

“As the rich are getting richer, maybe the poor are trying to do this thing called keeping up with the Joneses, which forces them into debt and then leads to financial problems,” study co-author and University of Alberta professor Barry Scholnick told the National Post.

Using a single lottery winner in a small neighbourhood, they were able to actually observe a “shock” to income inequality at a micro-level.

The study looked at more than 6,000 winners over 10 years in one Canadian province — which authors couldn’t name, because of a non-disclosure agreement. The prizes ranged from $1,000 to $150,000 between 2004 and 2014.
The authors were drawn to Canada for the study because data available here was “richer” than the U.S., and they could see what kind of assets neighbours had at the time they filed for bankruptcy.
Lottery win makes neighbours more likely to go bankrupt, data suggests

Every $1,000 in lottery winnings makes neighbours 2.4% more likely to go bankrupt: U.S. report

By Pete Evans, CBC News Posted: Mar 02, 2016 11:37 AM ET Last Updated: Mar 02, 2016 11:37 AM ET

People who live next to recent lottery winners are more likely to go bankrupt, new research suggests.

According to a recent report from the Philadelphia Federal Reserve, an arm of America's central bank, for every $1,000 your close neighbour wins in the lottery, you are 2.4 per cent more likely to go bankrupt in the next two years.

As evidence for their correlation, the group looked at Canadian data. That's because unlike the U.S. system which is made up of a patchwork of lottery system and Byzantine network of consumer financial data, Canadian information on the two variables is centralized and in complete control of either the federal or provincial governments.

By collecting data from various provincial lottery boards, the Philly Fed was able to compile a list of every Canadian who won at least $1,000 in the lottery for a 10-year window between April 1, 2004, and March 31, 2014. That is a list of 6,578 people.

They then cross-referenced that list against data from the Office of the Superintendent of Bankruptcies, which has an exhaustive list of every individual who went bankrupt in Canada during that time frame.

The result found an intriguing correlation between lottery wins and bankruptcies among people who live very close to them — specifically, people who share the same postal code.

"These areas are extremely small, often smaller than a city block in size," the report said. "Single apartment buildings, for example, can have multiple six-digit postal codes."

Using that method found that in a two-year window following a lottery win, there was a base case of 0.46 bankruptcies among someone in the same postal code, which averages around 13 households.

The reason, the Fed explains, is conspicuous consumption: Many people feel compelled to increase their own spending when they see physical evidence of exorbitant spending around them.

And the bigger the win for the Joneses, the more likely the Looky-Lous across the street were likely to go to the poor house trying to keep up with them.
"The size of lottery prizes increases the value of visible assets [houses, cars, motorcycles]," the report explains, "but not invisible assets [cash and pensions]."

Mo' money, mo' problems

The report compared data from the test group that shared a postal code with a control group of an average of 200 other households that live within a fifth of a kilometre. That's a close enough group that it would be subject to the same macroeconomic factors as the test group to test the different reasons for any bankruptcy filings.

The results were even more pronounced in low-income neighbourhoods than they were in high-income neighbourhoods. "Because this increased consumption of the poor will likely be financed by debt, this will eventually lead to financial distress for these poorer individuals," the report said.

The report found that it doesn't even require an exorbitant lottery win for neighbours to start overspending. It specifically excluded jackpots of more than $150,000 from their calculations.

And most tellingly, the paper found that a lottery win doesn't even guarantee financial comfort for the winners themselves: Out of 6,578 lottery winners analyzed, 824 of them declared bankruptcy themselves within a decade, the paper found.

"The larger the magnitude of a lottery prize, the larger the value of conspicuous assets.
A neighbour’s big lottery win boosts the odds that you’ll wind up in the poorhouse, according to a new study co-authored by a University of Alberta professor.

“If your neighbour wins a million bucks, you’re more likely to go bankrupt than if your neighbour wins a thousand bucks,” Alberta School of Business economics professor Barry Scholnick said Wednesday.

“The explanation is this idea of conspicuous consumption. If your neighbour wins a lot and starts renovating their home or buys a boat, and you can see this, it’s likely to cause financial distress.”

The paper, produced for the Federal Reserve Bank of Philadelphia research department, found a $1,000 increase in lottery prizes caused a 2.4 per cent rise in bankruptcies among the close neighbours of winners.

Scholnick, who worked with colleagues from the Philadelphia reserve bank and the National University of Singapore, said they used data on 6,578 prizes ranging from $1,000 to $150,000 handed out in 2004-14 by an unidentified provincial lottery corporation.

The higher chance of going bankrupt as your neighbours win more occurs when people spend their prizes on “visible” assets such as fancy cars or bigger homes, but not if they simply invest the cash in stocks and bonds, Scholnick said.

“What the study does is it provides statistical evidence for the idea of keeping up with the Joneses … We try to show off to our neighbours.”

Taking home a jackpot doesn’t guarantee freedom from financial woes. The study found 824 lottery winners in their sample had filed for bankruptcy a decade before or after collecting their bounty.

Scott Hannah, president of the non-profit Credit Counselling Society, said overspending to keep up with neighbours, family and friends is one of the most common reasons people run into financial difficulty.

Many people want possessions so they appear successful, even if it isn’t true, Hannah said.
“It’s important that you’re comfortable in your own skin. Live within your means … Real friends don’t care.”

The Western Canada Lottery Corp. hasn’t studied this area, but informal conversations indicate big winners usually aren’t extravagant, spokesman Kevin Van Egdom said.

“A lot of people will report a sense of freedom. You will notice they will pay down their bills. They tend to share their winnings with the people who are important to them and the causes that are important to them.”