

Contributions of Debt and Bankruptcy to Life Course Mobility*

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Abstract

This paper considers the significance of credit markets and bankruptcy for life course mobility. Comparing parallel data from the 2007 Survey of Consumer Finances (SCF) and the 2007 Consumer Bankruptcy Project (CBP), we analyze use of the bankruptcy process as a function of the distribution of unplanned events, the ability of households to use credit markets to limit the adverse effects of such events, and barriers in access to the bankruptcy system. Our findings suggest two things. One, bankrupt households generally come from the bottom quartiles of the population in assets and income and the top quartile in debt, but the financial characteristics of filers vary by age and race. Two, households neither attribute their bankruptcies to the same causes nor use the same strategies to avert bankruptcy. The comparative explanations reveal age- and race-based variations that are consistent with disparate racial access to markets and institutions and the increased incidence of financial activity among the elderly.

1 Introduction

U.S. aggregate debt levels and household debt burdens have risen in the last two decades (Mishel, Bernstein and Shierholz 2009; Federal Reserve Statistical Release G.19; Federal Reserve Table 1.54), in part a result of the democratization of credit markets, while bankruptcy rates are an order of magnitude higher than they were a generation ago (White 2007). This paper explores the contributions of both institutions—credit markets and bankruptcy—to life course mobility.

Mobility research has recognized the variability in the risks of adverse events such as job loss or illness and the consequences of those risks for household finance (DiPrete 2002; O’Rand 2003). That variability is, in part, a product of economic vulnerability, which can be measured in different ways. Researchers traditionally have emphasized income-based poverty measures, but they also have explored asset-based, consumption-based and hybrid measures (Haveman and Wolff 2004; Sandoval, Rank, and Hirschl 2009; Heflin, Sandberg and Rafail 2009). Less attention has been

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