THE SCARRING EFFECTS OF BANKRUPTCY: CUMULATIVE DISADVANTAGE ACROSS CREDIT AND LABOR MARKETS


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Although the labor market functions as the primary mechanism for the distribution of resources in the United States, credit markets can also enhance, maintain, or reduce inequality. My project uses the event of bankruptcy to investigate how credit and labor markets jointly affect inequality. I apply fixed effects and multilevel models to two longitudinal datasets, the National Longitudinal Survey of Youth (NLSY) and the Panel Study of Income Dynamics (PSID), which I have combined with state-level bankruptcy data. My findings support a general model of cumulative disadvantage across spheres in which bankruptcy tends to be sparked by adverse events combined with a high debt burden. After declaring bankruptcy, bankrupters earn less and spend more time out of work than non-bankrupters, net of their prior labor market statuses. Interestingly, bankruptcy has similar causes and consequences for respondents in this sample regardless of their race, ethnicity, or sex.