Asset, wage protections may help debtors in a tough economy

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States could take steps now to soften the impact of a recession by protecting residents with unsecured debt, according to a new study that reveals an inequitable patchwork of protections for Americans who are behind on their bills.

The research is particularly timely because credit card debt is increasing and some experts predict that the U.S. could soon enter a recession, a period when far more Americans may be facing unmanageable debt.

Published in November 2022 in the *American Journal of Sociology*, the study finds protections for assets likes homes and cars have increased over time but protections for wages have remained mostly stagnant.

"This means that those who own homes are more protected from debt collectors than wage earners who rent their homes," said research author and Frank H. T. Rhodes Postdoctoral Fellow Elizabeth Martin, who is affiliated with the Cornell Population Center and Jeb E. Brooks School of Public Policy. "Exemptions are most applicable for those who own property, even tenuously."

Martin studied state exemption laws and their impact on economic insecurity from 1986-2012.

She found that during recessionary periods, states that offer higher protections see fewer residents losing large portions of their available income. Protections for valuable property, like homes and cars, are most effective when the economy is doing badly. However, protecting wages reduces economic insecurity no matter the state of the economy.

Federal laws limit how much of a person's wages can be garnished for consumer debts; individuals can retain either 75% of their disposable income, or not less than 30 times the minimum wage ($217.50 per week). Some states protect more—either a higher percentage of someone's income, or a higher floor. Massachusetts protected 85% of income or a minimum of $500 a week from garnishment in 2012, the highest rate in the nation.

Surprisingly, the divergence between state laws has little to do with the politics of lawmakers or residents. Rather, the prevalence of farm employment appears to be the main predictor of higher exemption protections. "I suspect that states that rely on farming may have the highest protections since farming requires both land and equipment to function," Martin said.

State policymakers and legislators could take steps now to protect their constituents in the event of a recession. Increasing the social safety net or subsidizing higher education tuition could reduce the need for residents to take out risky high-interest loans, Martin said.

More directly, states could reduce the harm associated with falling behind on debts by increasing protections for wages. "States should also consider increasing protections that may be more likely to benefit the less wealthy —like those for wages and government benefits deposited in bank accounts or cash for rent and other necessary expenses," Martin said. "Limiting some of a creditor's recourse is a bare minimum protection but one that appears to increase economic security when times are tough."

More information: Elizabeth C. Martin, Regulating the Risk of Debt: Exemption Laws and Economic Insecurity across U.S. States, 1986–2012, *American Journal of Sociology* (2023). DOI: 10.1086/722964

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