

# RESEARCH IN ACTION: Wharton's **Sasha Indarte** Examines Racial Disparities in Personal Bankruptcy

## THE PROBLEM

*Can We Close the Racial Wealth Gap by Bringing Fairness to Bankruptcy Proceedings?*

Centuries of legal discriminatory practices in the United States have left a wealth gap that hasn't changed significantly since the late 1980s. Black families in America today hold about 10% of the wealth of white families, while the wealth of Hispanic families has grown to only 20% of that held by white families. Jim Crow laws and redlining are two policies that readily come to mind when identifying the pillars of structural racism, but new research from Wharton is unveiling some of the unseen ways that systems and institutions continue to create barriers to equality.



## THE RESEARCH

*"Explaining Racial Disparities in Personal Bankruptcy Outcomes"*

Bankruptcy is a significant source of debt relief for Americans, with one in 10 filing at some point in adulthood. In their study titled ["Explaining Racial Disparities in Personal Bankruptcy Outcomes,"](#) Wharton finance professor Sasha Indarte and her co-authors found that Black bankruptcy filers are far more likely than whites to have Chapter 7 and Chapter 13 cases dismissed by the court. When cases are dismissed, petitioners do not get the debt relief that they are seeking.

**The study uses data on the near universe of U.S. personal bankruptcy cases in the past two decades, totaling over 14 million cases.**

- Chapter 7 cases for Black filers were 3% more likely to be dismissed than non-Black filers. That's double the average Chapter 7 dismissal rate.
- Chapter 13 cases for Black filers were 21% more likely to be dismissed than non-Black filers. Chapter 13 has an overall dismissal rate of 56%.
- The race of the bankruptcy trustees also matters for Black filers. A trustee is an administrator appointed to oversee a debtor's estate during the proceeding. The research found no difference in the dismissal rates for Black Chapter 13 filers assigned to a non-white trustee. But when Black Chapter 13 filers were randomly assigned to a white trustee, their likelihood of dismissal jumped 10%.



**Indarte** is also part of a team studying how the current bout of inflation, which is at a 40-year high in the U.S., affects people of different races, ages, genders, and income levels, based on their spending and saving habits. The ongoing study is being conducted in partnership with a fintech company, with a goal of helping the firm better understand how the current economic climate impacts their users.



## **THE SCHOLAR:** *SASHA INDARTE*

Indarte holds a Ph.D. in economics from Northwestern University. She worked as an associate economist at the Federal Reserve Bank in Chicago and as an Assistant Professor of Finance and Economics at Duke University's Fuqua School of Business before joining the faculty at Wharton in 2020. Her areas of expertise include macroeconomics, household finance, and financial intermediation.

**Indarte said she is motivated to study the causes of financial distress because the consequences are not borne equally by different people or different countries.**

“Understanding the role of race in shaping economic outcomes is especially interesting to me. Our standard economic models do not typically include race, but it can be an important missing ingredient. Race tends to predict important differences in peoples’ economic outcomes, even when these people are similar in many other observable dimensions. Understanding why is an important task.”

“Every paper is one small step forward. This paper on bankruptcy contributes to our broader understanding of what inequities exist and what could be causing them. If we don’t know what disparities exist and what’s behind them, that limits our ability to respond to them. It limits our ability to create equality.”

## About the **Coalition for Equity and Opportunity**

The Wharton Coalition for Equity and Opportunity (CEO) creates research-driven solutions to help current and future leaders ensure equity in business relationships and leadership. Dean Erika James, who is Wharton's first Black and first female dean, is emblematic of a paradigm shift in executive leadership. She has launched the Wharton Coalition for Equity and Opportunity as the hallmark of her leadership commitment to diversity, equity, and inclusion. The initiative is being led by Kenneth L. Shropshire, Wharton emeritus professor of legal studies and business ethics. Shropshire is the former director of the Wharton Sports Business Initiative and former CEO of the Global Sport Institute.