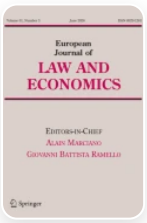
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Getting Out of Debt: Garnishment of Wage in Whose Interest?

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Abstract

Garnishment of wage as a way for creditors to enforce payment by unwilling or insolvent debtors, while very common in Germany and Switzerland, is not very successful. Based on a dynamic model of debtor behaviour, this paper explores two alternatives of reform. One is to reduce the rate of garnishment, which at present amounts to 100 percent of the wage income exceeding a defined subsistence level, thus probably destroying incentives to work. According to model simulations, reducing the rate of garnishment is likely to result in an increase of labour supply but a decrease of garnishment revenue per period. Second, the introduction of a debt release as it exists in the United States would have an ambiguous effect on labour supply. While providing debtors with a fresh start, it would result a partial loss for creditors. A Pareto improvement thus does not seem to be possible. When taxpayers as an involved third party are taken into account, however, a potential Pareto improvement appears attainable through debt release.

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