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Issue Brief

BANKRUPTCY AND BUSINESS FAILURE DATA

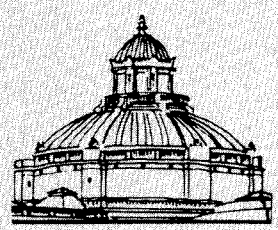
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ISSUE DEFINITION

Currently, the U.S. economy is experiencing a tremendous increase in the number of businesses filing for bankruptcy as well as ceasing operations. This recent surge in business failures is unprecedented since the Great Depression of the 1930s.

There are quite a few endogenous and exogenous factors that may contribute to the failure of a firm; however, many financial analysts believe that two developments that occurred in late 1979 may have had a major impact on the recent high rate of business failures. First, the Bankruptcy Reform Act of 1978 substantially revised U.S. bankruptcy laws, allowing significant benefits to businesses as well as consumers that they did not have prior to the Act. Second, interest rates increased to an unusually high level for an unprecedented length of time.

The purpose of this Mini Brief is to provide statistical data on the actual number of businesses that are filing for bankruptcy or ceasing operations. Tabular data of both a historical and current nature concerning business failures and bankruptcies is provided. Furthermore, for your convenience, the Congressional Research Service is now providing a new service to congressional users, the CRS Stats Line. This new service is a recorded message which will give the most current figures available on business failures by calling 287-7034.

BACKGROUND

There are primarily two sources for business failure and business bankruptcy data in the United States, Dun and Bradstreet Inc., (D&B) and the Administrative Office of the United States Courts. Although the Dun and Bradstreet data has been published since 1857 and in most respects is considered to be more comprehensive than the Administrative Office of the U.S. Courts data, they both have major limitations. Dun and Bradstreet considers business failures to be "those businesses that ceased operations following assignments or bankruptcy; ceased with loss to creditors after such actions as execution, foreclosure or attachment; voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership; reorganization, or arrangement; or voluntarily compromised with creditors out of court." It should be noted that a major point concerning this definition is that a loss to creditors is involved, irrespective of whether or not bankruptcy proceedings were initiated. Although Dun and Bradstreet data provide breakdowns by 43 industry divisions, by State and in 25 U.S. cities, by five size levels of current liabilities, and by cause of failure, several major sectors of the U.S. economy are excluded. These sectors include banks, mortgage, loan and investment companies, insurance and real estate companies, railroads, terminals, amusements, personal one-man services, professions, and farmers. Moreover, Dun and Bradstreet does not publish failure data based on employment size or current sales volume of firms.

Dun and Bradstreet's failure rate is based on the number of failures per 10,000 listed firms. However, those firms listed by Dun and Bradstreet represent only about a third of the total total number of businesses in the United States.

The Administrative Office of the United States Courts has provided statistical data on business bankruptcies filed and pending since 1940 on an annual basis. Moreover, unpublished data has been available from this office on a quarterly basis since 1975. In comparing these data with D&B's statistics, it should be noted that the Administrative Office of the U.S. Courts does include categories of businesses which are excluded by D&B; however, it does not include businesses which settle with creditors out of court. Furthermore, although the Administrative Office of the U.S. Courts does not provide the breakdowns by industry or by geographic area that D&B provides, it does provide breakdowns by type of bankruptcy and by occupations of debtors. However, according to a 1973 report published by the Commission on the Bankruptcy Laws of the United States, it was noted that the Bankruptcy Division of the Administrative Office of the U.S. Courts has not established a uniform criterion for distinguishing between a "business" case and a "nonbusiness" case. This report states that "each bankruptcy court clerk reporting statistics to the Administrative Office makes the determination"; therefore, there is a likely possibility that the Administrative Office of the U.S. Courts' statistics may not fully reflect the incidence of small business failures that become cases under the Bankruptcy Reform Act. There are at least two additional major limitations present in the Administrative Office of the U.S. Courts data. First, these statistics are not limited to straight bankruptcy; therefore, they tend not to indicate business failures in a narrow sense because the Bankruptcy Code allows a number of these businesses to reorganize in order to continue operation of the business. Secondly, the Administrative Office data generally only applies to bankruptcy filings; therefore, only the initial stage in the bankruptcy proceedings is reflected.

Consequently, for analytical purposes Dun and Bradstreet data, although beset by several limitations, are considered by most analysts to be preferable to the bankruptcy data of the Administrative Office of the U.S. Courts.

The following tables are provided to indicate the number and liabilities of business failures; the number of joint petitions, business, and nonbusiness filings for bankruptcy, and the failure rate for those firms listed by Dun and Bradstreet. Table 1 indicates the number and rate of business failures, as well as the current liabilities of those firms which have ceased operations from 1940-1981 according to Dun and Bradstreet. Liabilities as defined by D&B and used in these tables include all accounts and notes payable and all obligations, whether in secured form or not, known to be held by banks, officers, affiliated companies, supplying companies or the Government. Long-term, publicly held obligations are not included and off-setting assets are not taken into account. Dun & Bradstreet's failure rate is based on the number of failures per 10,000 listed firms.

Table 2 provides the most current statistics on the number of businesses that have failed as well as a comparison with the same time period for the previous year according to Dun and Bradstreet. This table also indicates the average number of failures per week as well as the average number of failures with liabilities over \$100,000 for 1981 and 1982.

Table 3 provides statistical data on bankruptcy cases filed for the years 1968-1982 indicating those cases that are classified as business or nonbusiness according to the Administrative Office of the U.S. Courts.

Table 4 indicates the most current data on bankruptcy cases filed according to the Administrative Office of the U.S. Courts broken down monthly

for 1980-1983. These data are classified as business, nonbusiness; or joint petition cases. Joint petitions reflect a new filing provision under the Bankruptcy Reform Act of 1978 where previously a husband and wife, or partners in a business, would have filed separate petitions. The combined totals heading in this table reflects the number of joint petitions, plus the total number of nonbusiness and business cases filed; thus the resulting figure may be more comparable to statistics for cases filed under the old bankruptcy law.

TABLE 1A. Rate and number of business failures - 1940-1982

Year	Total	Number of failures		Failure rate: per 10,000 Listed firms
		Liability size class		
		Under \$100,000	\$100,000 and Over	
1940	13,619	13,400	219	63.0
1941	11,848	11,685	163	54.4
1942	9,405	9,282	123	44.6
1943	3,221	3,155	66	16.4
1944	1,221	1,176	46	6.5
1945	809	759	50	4.2
1946	1,129	1,003	126	5.2
1947	3,474	3,103	371	14.3
1948	5,250	4,853	397	20.4
1949	9,246	8,708	538	34.4
1950	9,162	8,746	416	34.3
1951	8,058	7,626	432	30.7
1952	7,611	7,081	530	28.7
1953	8,862	8,075	787	33.2
1954	11,086	10,226	860	42.0
1955	10,969	10,113	856	41.6
1956	12,686	11,615	1,071	48.0
1957	13,739	12,547	1,192	51.7
1958	14,964	13,499	1,465	55.9
1959	14,053	12,707	1,346	51.8
1960	15,445	13,650	1,795	57.0
1961	17,075	15,006	2,069	64.4
1962	15,782	13,772	2,010	60.8
1963	14,374	12,192	2,182	56.3
1964	13,501	11,346	2,155	53.2
1965	13,514	11,340	2,174	53.3
1966	13,061	10,833	2,228	51.6
1967	12,364	10,144	2,220	49.0
1968	9,636	7,829	1,807	38.6
1969	9,154	7,192	1,962	37.3
1970	10,748	8,019	2,729	43.8
1971	10,326	7,611	2,715	41.7
1972	9,566	7,040	2,526	38.3
1973	9,345	6,627	2,718	36.4
1974	9,915	6,733	3,182	38.4
1975	11,432	7,504	3,928	42.6
1976	9,628	6,176	3,452	34.8
1977	7,919	4,861	3,058	28.4
1978	6,619	3,712	2,907	23.9
1979	7,564	3,930	3,634	27.8
1980	11,742	5,682	6,060	42.1
1981	17,044	N.A.	N.A.	62.0
1982	25,346			

SOURCE: 1940-1980 figures from Dun & Bradstreet, Inc. Business Failure Record, 1982. 1981 data from Dun & Bradstreet on Business Failures presented before the Subcommittee on General Oversight, House Committee on Small Business, June 23, 1982.

TABLE 1B. Liabilities of business failures, 1940 - 1981
(in Millions of Dollars)

<u>Year</u>	<u>Total</u>	<u>Liability Size Class</u>	
		<u>Under \$100,000</u>	<u>\$100,000 and Over</u>
1940	166.7	119.9	46.8
1941	136.1	100.7	35.4
1942	100.8	80.3	20.5
1943	45.3	30.2	15.1
1944	31.7	14.5	17.1
1945	30.2	11.4	18.8
1946	67.3	15.7	51.6
1947	204.6	63.7	140.9
1948	234.6	93.9	140.7
1949	308.1	161.4	146.7
1950	248.3	151.2	97.1
1951	259.5	131.6	128.0
1952	283.3	131.9	151.4
1953	394.2	167.5	226.6
1954	462.6	211.4	251.2
1955	449.4	206.4	243.0
1956	562.7	239.8	322.9
1957	615.3	267.1	348.2
1958	728.3	297.6	430.7
1959	692.8	278.9	413.9
1960	938.6	327.2	611.4
1961	1,090.1	370.1	720.0

TABLE 1B. (continued)
Liabilities of business failures, 1940 - 1981
(in millions of dollars)

<u>Year</u>	<u>Liability size class</u>		
	<u>Total</u>	<u>Under \$100,000</u>	<u>\$100,000 and Over</u>
1962	1,213.6	346.5	867.1
1963	1,352.6	321.0	1,031.6
1964	1,329.2	313.6	1,015.6
1965	1,321.7	321.7	1,000.0
1966	1,385.7	321.5	1,064.1
1967	1,265.2	297.9	967.3
1968	941.0	241.1	699.9
1969	1,142.1	231.3	910.8
1970	1,887.8	269.3	1,618.4
1971	1,916.9	271.3	1,645.6
1972	2,000.2	258.8	1,741.5
1973	2,298.6	235.6	2,063.0
1974	3,053.1	256.9	2,796.3
1975	4,380.2	298.6	4,081.6
1976	3,011.3	257.8	2,753.4
1977	3,095.3	208.3	2,887.0
1978	2,656.0	164.7	2,491.3
1979	2,667.4	179.9	2,487.5
1980	4,635.1	272.5	4,362.6
1981	N.A.	N.A.	N.A.

SOURCE: 1940-1980 figures from Dun & Bradstreet, Inc. Business Failure Record, 1982. 1981 data from Dun & Bradstreet on Business Failures presented before the Subcommittee on General Oversight, House Committee on Small Business, June 23, 1982.

TABLE 2. Current Statistics on the Number of Business Failures,
1982 .

	<u>1982</u>	<u>1983</u>
Year To Date	25,346	31,334
Average per week	487	603
Average per week (Liabilities \$100,000 or more)	256	297
Business Failures for the week ended:		
Dec.	29	540 P
Dec.	22	541 P
Dec.	15	663 P
Dec.	8	740 P
Dec.	1	738 P
Nov.	24	525 P

P-Preliminary

Source: Dun & Bradstreet, Inc. Economic Analysis
Department: Weekly Failure Statistics. Jan. 5, 1984.

TABLE 3. Bankruptcy Cases Filed, 1968-1982
(for years ending June 30)

<u>Year</u>	<u>Non- Business</u>	<u>% of Total</u>	<u>Business</u>	<u>% of Total</u>	<u>Total</u>
1968	181,266	91.6	16,545	8.4	197,811
1969	169,500	91.7	15,430	8.3	184,930
1970	178,202	91.7	16,197	8.3	194,399
1971	182,249	90.5	19,103	9.5	201,352
1972	164,737	90.1	18,132	9.9	182,869
1973	155,707	89.9	17,490	10.1	173,197
1974	168,767	89.1	20,746	10.9	189,513
1975	224,354	88.2	30,130	11.8	254,484
1976	211,348	85.7	35,201	14.3	246,549
1977	182,210	85.0	32,189	15.0	214,399
1978	172,423	85.0	30,528	15.0	202,951
1979	196,967	87.0	29,500	13.0	226,476
1980	314,905	87.2	40,050	12.8	360,960
1981	452,730	87.2	66,332	12.8	519,063
1982 <u>a</u> /	449,839	85.3	77,503	14.7	527,811

a / Preliminary

Source: Administrative Office of the U.S. Courts, Bankruptcy Division.

TABLE 4. Bankruptcy Cases Filed, 1981-1983
(Calendar Years)

<u>Year</u>	<u>Non- Business</u>	<u>Business</u>	<u>Total</u>	<u>Joint Petitions (a)</u>	<u>Combined Totals (b)</u>
1980:					
1981:					
Jan.	22,303	3,559	25,862	11,298	37,160
Feb.	25,692	4,096	29,788	13,375	43,163
Mar.	29,936	4,579	34,515	15,502	50,017
Apr.	28,188	4,414	32,603	14,380	46,983
May	24,894	3,770	28,664	12,513	41,177
June	27,750	3,950	31,700	13,819	45,519
July	27,050	3,810	30,860	13,474	44,334
Aug.	25,935	3,620	29,555	12,961	42,516
Sept.	26,455	3,901	30,356	13,038	43,394
Oct.	27,110	3,993	31,103	13,374	44,477
Nov.	25,189	3,935	29,124	12,606	41,730
Dec.	25,306	4,369	29,675	12,974	42,649
1982					
Jan.	20,926	4,384	25,310	10,780	36,090
Feb.	24,299	5,109	29,408	12,882	42,290
Mar.	29,871	6,132	36,003	15,950	51,953
Apr.	27,354	5,890	33,244	14,515	47,759
May	25,056	5,175	30,231	12,846	43,077
June	26,854	6,024	32,878	14,037	46,915
July	24,885	6,095	30,980	13,416	44,396
Aug.	27,256	6,369	33,625	14,619	48,244
Sept.	26,250	5,966	32,216	14,145	46,361
Oct.	26,877	6,190	33,067	14,372	47,439
Nov.	25,670	5,605	31,275	13,453	44,728
Dec.	25,770	6,195	31,966	13,817	45,783
1983					
Jan.	21,469	5,446	26,915	11,384	38,299
Feb.	23,412	5,827	29,239	12,417	41,656
Mar.	27,635	6,543	34,178	14,633	48,811
Apr.	25,517	5,270	30,787	13,179	43,966
1983:					
May	25,086	5,110	30,196	12,657	42,853
June	25,159	5,029	30,188	12,434	42,622
July	21,752	4,118	25,870	10,683	36,553
Aug.	25,492	4,401	29,893	12,330	42,223
Sept.	24,096	4,297	28,393	11,750	40,143
Oct.	24,759	4,333	29,092	12,138	41,230
Nov.	23,484	4,242	27,726	11,410	34,894

(a): Joint filings are now permitted under the new Bankruptcy Code where previously a husband and wife, or partners in a business would have filed separate petitions.

(b): The combined total reflects the number of joint petitions plus the total number of non-business and business cases filed. This may be more comparable to statistics for cases filed under the old bankruptcy law.

Source: Administrative Office of the U.S. Courts,
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