

Feature: Business Bankruptcies Ease With Low Interest Rates, But Consumer Bankruptcies Continue to Climb

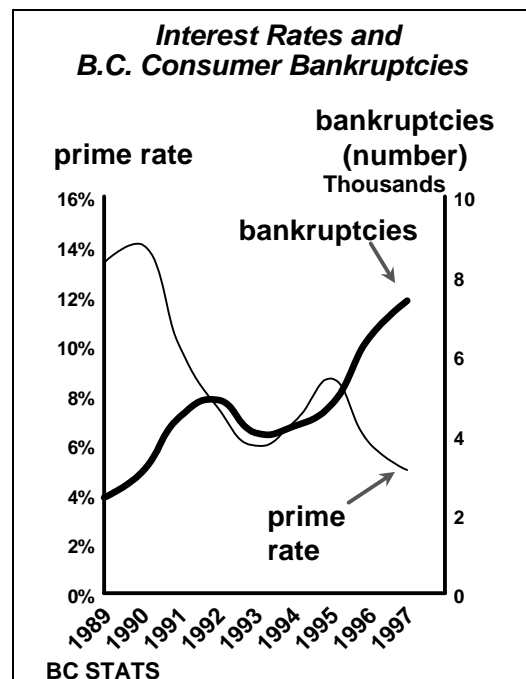
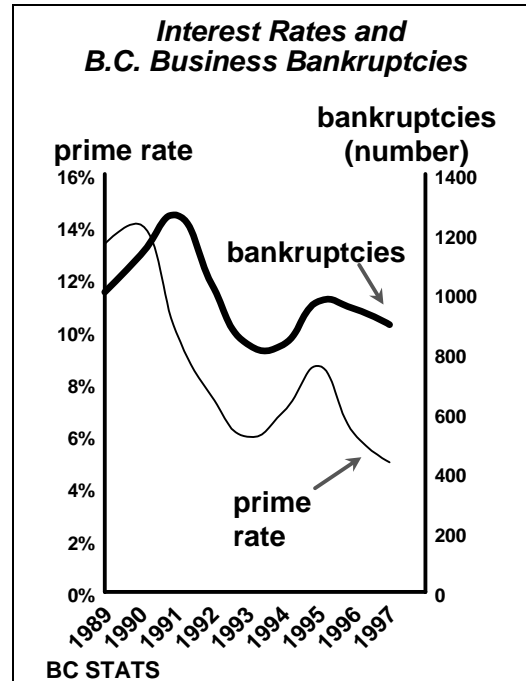
Bankruptcies statistics have presented a good news – bad news story during the second half of the 1990s. On the one hand, business bankruptcies have declined as interest rates have dropped to the lowest levels in decades. But, on the other, consumer bankruptcies have been rising strongly since 1993.

Business bankruptcies in British Columbia fell from 1,128 in 1990 to 895 in 1997, as the prime rate dropped from 14.06 per cent to 4.96 per cent. Business bankruptcies are those in which more than 50 per cent of the liabilities were incurred to build or operate a business. They include corporations, but more often they are individuals operating their own businesses as individual proprietorships or partnerships. The great majority of these businesses are small.

The decline in numbers of business bankruptcies is all the more significant for having come at a time when so many more businesses have been established. There was a net increase of 88 thousand in the number of micro businesses created between 1992 and mid-1997. These are operations involving only a single working owner with no employees. The numbers of larger businesses also rose, although less strongly. Businesses with between 1 and 9 employees increased by 13.7 thousand. There were another 5.0 thousand additional businesses with between 10 and 19 employees; and 2.7 thousand with 20 to 49 employees. Large businesses, those with 50 or more employees, rose by one thousand.

Other things being equal, low interest rates should also have reduced the number of consumer bankruptcies. Consumer bankruptcies are those in which most liabilities were incurred for personal expenditures such as cars, clothes, houses, education or

entertainment. Yet consumer bankruptcies rose strongly in British Columbia between 1990 and 1997, from 3,043 to 7,366



This surge of consumer debt problems is by no means unique to British Columbia. Similar increases in numbers of consumer bankruptcies have been reported elsewhere in Canada and the United States. Reasons often cited are poor individual debt management and long term employment difficulties problems in the difficult job market of the 1990s.

Some commentators argue that too easy access to credit through credit cards and retail 'buy now pay later' plans has also contributed by encouraging out of control personal borrowing.

Student loans have also been argued as an important factor. An estimated one in five consumer bankruptcies list student loans among the liabilities involved.

Per capita bankruptcy rates vary considerably by province. For example there were 3.49 consumer bankruptcies per thousand people in Alberta during 1997, but only 1.88 per thousand people in British Columbia.

British Columbia's business bankruptcy rate was the lowest of any in Canada. Its 0.23 business bankruptcies per 1,000 people compared with a national average of 0.40 per thousand.

However, these comparisons should not be taken as reflecting the relative strength of provincial economies. Bankruptcy rates are influenced by regulations determining the value of personal assets exempted from seizure and sale in a bankruptcy, and these vary from province to province. The regulations produce more or less disincentive to declaring bankruptcy from one province to the next. In Alberta, for example, bankrupt people have been able to exempt up to ten times the value of property allowed in British

	Consumer Bankruptcies Per Thousand People	Business Bankruptcies Per Thousand People
B.C.	1.88	0.23
Alta	3.49	0.51
Sask	1.76	0.35
Man	2.43	0.26
Ont	2.77	0.29
Que	3.63	0.62
NB	1.53	0.43
PEI	0.75	0.54
NS	2.56	0.71
NFLD	1.90	0.31
CANADA	2.82	0.40
BC STATS		

Columbia. Not surprisingly, bankruptcy rates have been considerably higher in Alberta.

This relationship could shortly change. The British Columbia Court Order Enforcement Act was amended last year to increase the value of personal property that can be exempted from \$2,000 to a maximum of \$31,000, effective May 1, 1998.

It may be that this will lead to an increase in consumer and business bankruptcy rates for British Columbia beginning in May. Some people may be delaying declaration of bankruptcy during early 1998 in order to take advantage of the new, more generous exemption limits taking effect May 1.

Certainly it could be some months after that before it will again be possible to read much economic significance into the rise and fall of bankruptcy rates in British Columbia.