

## Causes and effects of consumer bankruptcies: a cross-cultural comparison

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*Data for this study were collected during 1988 through surveys conducted in Canada, Japan, Scotland and the United States. The overall objectives of the study were to determine differences in factors influencing decisions to file bankruptcy, expectations from bankruptcy and impact of bankruptcy filing on debtor's life in each country. It was found that over 50% of debtors in all countries except the United States (46%) identified 'too much borrowing' as a reason for having to file for bankruptcy. Most of the debtors in each country agreed that bankruptcy provided a 'fresh start'. In addition, U.S. and Canadian debtors also indicated that filing for bankruptcy had a positive influence on their health status, family relations and the employment status. The impact of bankruptcy for Japanese debtors was rather harsh, resulting in family problems, health problems, suicides and running away from home. To help reduce the growth in bankruptcy and halt repeat bankruptcies, a multi-level effort focusing on lending practices, borrowing practices and bankruptcy procedures is needed.*

### Introduction

Bankruptcy has both personal and societal costs. Personal costs may include stress and depression, employment harassment, difficulty in morally accepting bankruptcy, loss of assets, social disapproval, court costs and legal fees. Societal costs are determined to some extent on how creditors pass on to all borrowers the risk of their bankruptcy losses in the form of higher credit costs or restrictions on the availability of credit.

Previous bankruptcy studies have used the micro-economic approach of examining individual case histories to identify economic and demographic attributes that appear to characterize bankrupt individuals. Many of these studies have used bankruptcy records to analyse the nature and extent of bankrupts' debt. Most studies have concluded that causes of bankruptcy include creditors' threats for legal action, actual collection actions, too much borrowing and mismanagement of debt. Outright unemployment seems a less critical determinant. Marital problems, large medical bills and changes in personal circumstances also contributed to many of the decisions to file for bankruptcy. Some studies have also related increase in bankruptcy rates to macro-economic factors such as inflation, high interest rates, change in legislation and economic swings in the region.

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However, few studies have focused on exploring the impact of bankruptcy on debtors' social and economic situations. Further, none of the studies have compared this aspect of consumer debt among industrially developed countries where families are exposed to various types of credit products. Bankruptcy procedures aim to provide a 'fresh start' and relief from immediate financial stress. However, it is not clear how the decision to file for bankruptcy is made and the impact of bankruptcy on the debtors' lives. Researchers have not explored the long-term effect of bankruptcy to determine if the bankruptcy process is meeting its goals of providing a 'fresh start' and 'rehabilitation' for the debtor.

### Literature review

According to previous studies, most bankrupts fall between the ages of 25 and 40 years; a high proportion of bankruptcies were filed by men. All early studies indicate that the majority of debtors in bankruptcy were married.<sup>1-5</sup> Several studies examining the education attainment of debtors have revealed no significant difference between bankrupts and general population.<sup>6</sup> Many studies found that the majority of bankrupts were employed in blue-collar occupations, and unemployment at the time of filing was indicated as a significant cause of bankruptcy.<sup>5,7,8</sup>

According to the results of many studies, families in bankruptcy were relatively larger in size than the general population. Young families enduring financial stress were the most likely family type to file bankruptcy. A disproportionately high number of debtors in bankruptcy have been determined as urban dwellers.<sup>1-3,5,8,9</sup>

Some bankrupts (3%) repeated use of the bankruptcy process to solve their debt problems.<sup>5</sup> Bankrupts gained information about bankruptcy most frequently from their own general knowledge, friends, relatives and co-workers.<sup>6,9</sup> The average bankrupts were found to be at income levels lower than the general population.<sup>10</sup> Similarly, levels of total assets values for debtors in bankruptcy were lower than that of the surrounding population.<sup>3,11,12</sup> Dolphin<sup>7</sup> reported a median of 14 creditors per bankrupt in his sample.

Approximately 83% of debtors in bankruptcy owed debt exceeding \$5,000, whereas only 36% of U.S. credit users exceeded \$5,000 indebtedness.<sup>9</sup> Many researchers discovered bankrupts in general were less likely to own their homes when compared with the general population.<sup>1-3,5</sup> Bankrupts owed their debts to many sources including finance companies, credit unions, retail stores, credit cards and banks.<sup>8-10</sup> Factors leading to bankruptcy as identified by many studies include poor debt management, attitude toward credit, emotional and family problems, medical problems, assets loss, increase in expense and loss of income.<sup>2,5-8,10</sup>

Consumer bankruptcies and serious debt problems are a result of multiple

factors, some internal to the debtors and others present in the external environment. External factors are the influences exerted by the lenders on the borrower's credit behaviour. These include the presentation of the credit product, the method of distribution, the price, the sales promotion, the use of credit score system, and the policies to grant credit and collect bad debt. The internal factors include the socio-economic factors such as family lifecycle, years of work experience and income, the attitude toward debt and borrowing, money and debt management skills, and decision-making skills.

### Procedures

#### Objectives

The overall objective of this study was to determine and compare the following between the U.S., Canada, Scotland and Japan:

- socio-economic profile of debtors in bankruptcy,
- legal environment in which bankruptcy is declared,
- factors influencing the decision to file for bankruptcy,
- expectations from bankruptcy and impact of bankruptcy filing on debtor's lives.

#### Source of data

The data were collected during 1987-1988 by examining the actual bankruptcy petitions and through questionnaires completed by bankrupts in U.S.A., Canada, Scotland and Japan. Bankruptcy records in the U.S.A. and Canada are public records and access to the records for the purpose of research was not a problem. In Japan, bankruptcy records lie with each lawyer who is involved in bankruptcy cases and had to be acquired from individual lawyers. About 70 lawyers from various parts of Japan co-operated in providing four to five cases each from among those who declared bankruptcy during 1987-1988. Similarly in Scotland, such records are not available at a central location and neither are they public records. Various accounting firms involved with consumer bankruptcy cases had to be contacted to access bankruptcy records. In both countries bankruptcy cases by lawyers and accountants were selected randomly.

From the lists of bankruptcy filings during 1987-1988, a random sample of records (257 in Scotland, 320 in Japan, 376 in Canada and 360 in the United States) were selected. Bankruptcy records in each country provided information on bankrupts' socio-economic characteristics, legal status of bankruptcy filings, debtors' financial status (types, amounts and sources of debts and assets) at the time of bankruptcy.

These randomly selected bankrupts were also posted a questionnaire in January

1988. The questionnaire was designed to collect information on the following topics: debtor's financial status after bankruptcy, attitudes toward debt, causes and effects of bankruptcy and satisfaction with bankruptcy process. The questionnaire included both closed and open-ended items. The items were selected from previous surveys.<sup>3,4,6</sup> The number of completed and usable questionnaires varied greatly from country to country (Japan 121, United States 108, Scotland 92 and Canada 50). Low response rates to the survey is a limitation of this study. However, no other study to the author's knowledge has attempted to draw comparisons among nations. Findings of this study will make unique contributions in building baseline data and emphasizing issues for future research.

**Methodology.** Data were analysed using frequency analysis; it is a useful method for presenting descriptive data. Some descriptive techniques more commonly used in the social services are frequency distribution, mean, mode and median. In order to compare the differences between four groups of population (four countries), *t*-tests analysis were used. To determine if the differences between the groups were statistically significant, a *P* value of 0.05 or less was used as a criterion.

#### Socio-economic characteristics

Among the individuals filing for bankruptcy, a variety of personal and economic characteristics were observed. However, as a group, they tend to represent a population group with the following characteristics: lower income, engaged in skilled/semi-skilled professions, employed, renters, males, 12 years of education, married, three-member household.

Noticeable differences were observed among bankrupts in the four countries. The majority of bankrupts in each country were males. Proportion of females between U.S., Canada and Scotland were significantly different (*t*-test significant at  $P \leq 0.05$ ). Approximately one-third (31%) of the bankruptcies filed in the U.S.A. were joint bankruptcies. Even though most debtors in each country were married, the proportion of divorced and separated was highest in Canada (*t*-test significant at  $P \leq 0.05$ ). The Japanese and Scottish debtors represented relatively larger households than the United States and Canadian debtors. However, the differences were not statistically significant. The average U.S. and Canadian debtors tended to be younger (mid-thirties) than their counterparts in Japan and Scotland (early forties).

Even though education levels were similar among bankrupts in all countries, the U.S. debtors, on average, had slightly more years of education (40% had 13 years or more) compared to the other countries' average of 11 and 12 years. The proportion of those fully employed was also highest among the U.S. debtors, while unemployed and looking for a job was highest among the Scottish debtors. *t*-Tests results for these comparisons were significant at  $\leq 0.05$ . Generally

speaking, most bankrupts in each country were employed in semi-skilled occupations and the service industry. The proportion of those with managerial and professional occupations was highest among U.S. debtors. Among U.S. and Japanese debtors was also a higher proportion of those who were employed in the agricultural sector (Table I).

Bankrupts have usually been characterized as a mobile population. On average, bankrupts in this study had moved twice during the last 5 years. The most frequently cited reasons for moving among the Canadian and U.S. debtors

Table I. Sociodemographic characteristics of debtors in bankruptcy (in percentages)

	U.S.A. ( <i>n</i> = 360)	Canada ( <i>n</i> = 306)	Scotland ( <i>n</i> = 92 <sup>a</sup> )	Japan ( <i>n</i> = 320)
Sex				
Male	53	67	72	55 <sup>c</sup>
Female	16	33	28	16 <sup>c</sup>
Joint <sup>b</sup>	31	—	—	—
Marital status				
Single	7	20	4	8 <sup>c</sup>
Married	62	52	70	60 <sup>c</sup>
Separated/divorced/widowed	22	28	19	17 <sup>c</sup>
Missing	9	—	7	15
Age (mean years)	35	36	43	44 <sup>c</sup>
Household size	3	3	4	4
Mean number of moves in the last 5 years	1.5	2	1.1	— <sup>c</sup>
Mean years of schooling	13	12	11	12
Employment status				
Fully employed	64	56	44	45 <sup>c</sup>
Partially employed	10	22	8	16 <sup>c</sup>
Unemployed	12	10	30	8 <sup>c</sup>
Other (disabled, retired)	7	8	8	16 <sup>c</sup>
Missing	7	4	10	15
Occupation				
Managerial/professional	23	14	19	4 <sup>c</sup>
Construction, trade, transportation	17	20	18	12 <sup>c</sup>
Sales/financial services	14	12	8	19 <sup>c</sup>
Clerical/service	17	34	7	29 <sup>c</sup>
Others (homemaker, artist, missing)	12	2	5	11 <sup>c</sup>
	17	18	43	25

<sup>a</sup>Sociodemographics for Scotland were prepared from survey results. The other countries' information was taken from petitions.

<sup>b</sup>Husband and wife filing together.

<sup>c</sup>*t*-Test results for the differences were significant at  $P \leq 0.05$ .

included job changes and personal reasons, while the Scottish debtors usually moved because of financial problems. In Japan, a large majority had not moved right before or after their bankruptcy filing; however, almost half of the Japanese debtors were not sure if they would have to move in the future.

#### *Legal and other background information*

Most of the consumer bankruptcies in Japan, Canada and the United States were voluntary, as opposed to involuntary filings in Scotland, where bankruptcy filings were brought on by creditors against debtors who could not keep up with payments. Almost all U.S., Canadian and Japanese debtors were either discharged or expected to be discharged, whereas approximately 15% of the Scottish debtors were discharged and only 4% expected to be discharged. Creditor actions, including lawsuits, executions, repossession and wage garnishments were reported by more U.S., Japanese and Scottish debtors than Canadian debtors. Legal actions or tort suits were reported by the majority of Scottish debtors. More U.S. and Canadian than Scottish debtors had consulted an attorney prior to the bankruptcy filings. On the other hand, more Japanese and Scottish than U.S. and Canadian debtors reported some property in the hands of a trustee at the time of the filings.

A small proportion of the debtors in each of the four countries had used and/or explored other alternatives to resolve their debt problems before filing for bankruptcy. These usually included debt consolidation, sale of assets and re-scheduling of debt payments. Financial counselling had been used by a relatively larger proportion of Canadian debtors, and was unknown to Scottish and Japanese debtors. Approximately one-third of the debtors in the United States and Canada had used the 'sale of assets' method as a way to solve debt problems. Re-scheduling of debt payment as an alternate method to solve debt problems had been mostly used by U.S. debtors.

Almost all of the Japanese, U.S. and Canadian debtors had consulted an attorney during the last 12 months. As the majority of them had also made some payments to an attorney during the previous 12 months, mean payments made to the attorneys were \$1,250 in the United States, \$1,000 in Canada (\$850 U.S.). However, for 70% of the U.S. debtors, the payments were under \$500. In Japan, court costs averaged 150,000 yens (\$967 U.S.). The average attorney fees paid by Japanese debtors were 220,000 yens (\$1,290 U.S.). However, 73% of the bankrupts paid 100,000 yens or less in attorney fees (\$645 U.S.).

More U.S. debtors than Canadian or Scottish debtors were aware of the legal alternatives to bankruptcy, such as Chapter 13 in the United States, Trust Deed in Scotland, and voluntary arrangements of deeds in Canada. Most of the Canadian and U.S. debtors did not use these alternatives because either their attorney advised against it or it was an inappropriate alternative due to low income and too much debt. Most of the Scottish debtors did not use such alternatives because

either their attorney advised against it, or their creditors did not co-operate. A small proportion of U.S. debtors (10%) did not use such alternatives because they did not want to pay a certain creditor. Japanese debtors, in general, were unaware of any such alternative.

Both in Canada and the United States, most of the bankruptcies were filed during the first quarter (January–March) whereas, in Japan, most filings were during the last quarter (September–December). This information was not available for Scotland. Most of the bankruptcies in the United States and Canada were filed in large cities, whereas, in Scotland, most bankruptcies were filed in the Sheriff's Court, with the majority of the Scottish debtors not knowing in which court their bankruptcy had been filed. In all four countries, for most debtors, it was their first experience with bankruptcy. However, in every country there were debtors who had previously filed bankruptcy. Repeat bankruptcies were highest among the Canadian debtors (20%), followed by Scottish (14%), U.S. (11%) and Japanese (8%) debtors.

#### *Sources of information and knowledge about bankruptcy*

Most of the debtors learned about bankruptcy from their lawyers, followed by friends and relatives. A large majority of the U.S. and Canadian debtors, as opposed to the Scottish and Japanese debtors, knew someone else who had filed for bankruptcy. Generally, this person in the United States and Scotland was a friend, whereas, in Canada, it was an immediate family member. However, before filing, most U.S. debtors discussed bankruptcy with relatives; Canadian debtors discussed it with financial counsellors and the Scottish debtors discussed it with friends or relatives. Most of the U.S. and Canadian respondents said they had all the necessary information about the bankruptcy procedure before filing, but only one-third of the Scottish debtors felt they had adequate information. Furthermore, most Scottish debtors said they were forced into bankruptcy and they were given conflicting information by the various parties involved in the process. Generally speaking, debtors were not clear about: (i) under which bankruptcy chapter to file, (ii) how much would it cost, (iii) which debts would be forgiven, and (iv) whether or not bankruptcy could be filed without a lawyer.

#### *Factors influencing the decision to file for bankruptcy*

All factors identified by debtors as a cause for bankruptcy in each of the four countries may be grouped into six categories: (i) collection actions taken by creditors, (ii) inability to re-schedule debt payment, (iii) too much debt, (iv) reduction in income due to unemployment, sickness or reduced hours of work, (v) medical problems, and (vi) personal and marital problems (Table 2).

Among U.S. debtors, the most frequently mentioned factors included 'creditor did not agree to re-schedule payments', 'borrowed too much' and 'large medical

Table 2. Important factors influencing the decision to file for bankruptcy (in percentages)

Factors	U.S.A. (n = 108)	Canada (n = 50)	Scotland (n = 92)	Japan (n = 121)
Change in marital status	26	20	13	5*
Natural disasters	7	—	4	—
Death in family	4	6	—	—
Unemployment	29	42	24	11*
Reduced hours at work	14	28	6	—
Loss of income	25	40	3	40*
Borrowed too much	46	56	58	53
Creditor did not agree on rescheduling of debt payments	54	56	43	—
Legal action taken by creditor	28	48	44	17*
Reduced income due to sickness	—	—	16	—
Loss of income due to pregnancy	—	—	17	—
Poor house purchase	—	—	4	—
Increase in the number of dependents	—	—	1	—
Business insolvency	—	—	—	19
Advance expense payment at work	—	—	—	9
Extra marital affairs	—	—	—	4
Indemnity payment due to accident	—	—	—	3
Wage garnishing	—	—	—	6
Pleasure and drinking	—	—	—	8
Purchase of luxury items	—	—	—	8
Educational loans	—	—	—	14
Fulfilment of surety obligations	—	—	—	25

\* $\chi^2$ -Test results for the differences were significant at  $P < 0.05$ .

bills'. In Canada and Scotland, the most frequently mentioned causes of bankruptcy were 'borrowed too much', 'creditors did not agree to re-schedule payments' and 'collection actions taken by creditors'. The most frequently mentioned factors among the Japanese were 'borrowed too much', 'loss of income' and 'medical bills'. Factors leading to bankruptcy among Japanese and Scottish debtors were quite different from those among U.S. and Canadian debtors.

About one-third of the Japanese and U.S. debtors indicated bankruptcy was filed because of large medical bills, but this was not a cause of bankruptcy for Scottish or Canadian debtors. Larger percentages of U.S. and Canadian debtors than Scottish or Japanese debtors filed bankruptcy due to unemployment. Approximately 40% of the Canadian and Japanese debtors, along with 25% of the U.S. debtors, identified the loss in income as a cause of bankruptcy. This study did not explore the causes of unemployment so it is not known if the unemployment was a result of external macro-economic factors which were out of

the debtor's control or if it was due to personal characteristics and behaviour. Even though a large proportion of Scottish debtors were unemployed, a very small proportion identified unemployment as a cause for their bankruptcy. Over 50% of the debtors in all countries except the United States identified too much borrowing as a cause for their bankruptcy; however, the underlying cause for too much borrowing was not uncovered in this study.

Since 'collection actions taken by creditors' was a frequently mentioned factor leading to bankruptcy among debtors in each country, this phenomenon was further explained. Specific actions taken by creditors included repossession threats and actual repossession, threats of foreclosure, wage garnishment, telephone calls, visits to home or workplace and threatening letters (Table 3).

However, statistically significant differences in creditor actions among the four countries were noted. For example, repossession threats were more common in Canada and U.S., whereas actual foreclosures on homes were reported by most Japanese. Wage garnishments, actual and threats, were reported mostly by Canadians and U.S. debtors. A large proportion of Japanese followed by U.S. debtors reported creditors visiting them at home. Larger proportions of Canadian debtors reported the creditor contacted the employer and more U.S. debtors reported a relative was contacted. It is obvious creditors took action to collect

Table 3. Specific creditor actions leading to bankruptcy filing (in percentages)

Actions	U.S.A. (n = 108)	Canada (n = 50)	Scotland (n = 92)	Japan (n = 121)
Repossession threat	39*	44*	15*	83 <sup>a,b</sup>
Actual repossession of goods	19	30	20	—
Sought recollection of balance due after repossession	11	16	17	—
Threaten to foreclose on home	19	16	21	—
Actual foreclosure on home	10	8	21 <sup>b</sup>	—
Threats to arrest/garnish wages	42	46	13 <sup>b</sup>	—
Actually garnishing wages	25	26	13 <sup>b</sup>	—
Frequently telephoned at work or home	71	74	16	4 <sup>b</sup>
Visited at home or work	31	24	15	69 <sup>b</sup>
Sent threatening letters	69	68	16	22 <sup>b</sup>
Contacted a co-signer of a loan	16	16	15	—
Contacted employer	19	24	11 <sup>b</sup>	—
Contacted a relative	25	12	15 <sup>b</sup>	—
Other/lawsuit	12	4	5	36 <sup>b</sup>
Violence	—	—	—	3

<sup>a</sup>Because of multiple responses, totals do not add up to 100%.

<sup>b</sup> $\chi^2$ -Test results for the differences were significant at  $P < 0.05$ .

overdue debt owed to them. However, is this a cause for bankruptcy? It certainly is a result of too much and unmanageable debt leading to bankruptcy.

### Expectations from bankruptcy

A majority of U.S. and Canadian bankrupts expected bankruptcy to provide: relief from debt, an opportunity for a fresh start, protection from creditor actions and improved family living conditions (Table 4). A relatively small proportion of Scottish debtors as compared to North American debtors had these expectations. The differences were statistically significant. Very few Japanese expected bankruptcy to provide a fresh start or save them from creditors. None of the Japanese bankrupts expected any feelings of freedom, relief from debt or improvement in family living conditions.

The majority of the bankrupts in each country agreed that bankruptcy provides 'a fresh start', but they strongly believed bankruptcy should not be used if other options to solve debt problems were available. Bankruptcy, in most debtors' opinion, should be used only as a last resort. A large number of the U.S. and Canadian debtors had several good things to say about bankruptcy, such as that 'it provided a new start' and 'taught the importance of money management'. Quite a few also indicated that bankruptcy 'helps get rid of creditors and provides a solution to debt problems'. Most Scottish and Japanese debtors did not have similar reactions to bankruptcy. About one-third of the Scottish debtors indicated bankruptcy was a solution to debt problems and helped save marriages.

### Effects of bankruptcy on various aspects of debtors' lives

Positive effects of bankruptcy on specific aspects of a debtors' lives were mentioned mostly by the U.S. and Canadian debtors (Table 5). A large majority

Table 4. Expectations from bankruptcy (in percentages)

Specific expectation	U.S.A. (n = 108)	Canada (n = 50)	Scotland (n = 92)	Japan (n = 121)
Relief from debt	77 <sup>a</sup>	62 <sup>a</sup>	45 <sup>a</sup>	5 <sup>a,b</sup>
Save from creditors' actions	57	60	42	17 <sup>b</sup>
Save job	10	20	22 <sup>b</sup>	—
Fresh start	60	65	50	39 <sup>b</sup>
Improve family living conditions	51	60	20 <sup>b</sup>	—
Feeling of freedom	23	36	33 <sup>b</sup>	—
Missing	—	—	—	5

<sup>a</sup>Totals do not add up to 100% because of multiple responses.

<sup>b</sup>t-Test results for the differences were significant at  $P < 0.05$ .

Table 5. Effects of the bankruptcy process on various aspects of debtors' lives (in percentages)

Various aspects	U.S.A. (n = 108)			Canada (n = 50)			Scotland (n = 92)			Japan (n = 121)		
	W	S	B <sup>a</sup>	W	S	B <sup>a</sup>	W	S	B <sup>a</sup>	W	S	B <sup>a</sup>
Marital situation	12 <sup>b</sup>	42	32	4	40	34	32	26	19 <sup>b</sup>	—	—	—
Financial situation	8	20	67	14	12	72	14	47	26 <sup>b</sup>	—	—	—
Social position	13	63	13	22	46	14	47	34	4	26	64	11 <sup>b</sup>
Family relations	13	53	28	10	40	34	35	25	14	8	46	51 <sup>b</sup>
Health status	11	45	34	16	28	46	24	41	19 <sup>b</sup>	—	—	—
Employment situation	10	55	27	16	42	34	27	43	4	7	31	59 <sup>b</sup>
Borrowing for home/car	43	27	7	56	16	4	50	20	4	37	50	13 <sup>b</sup>
Self-respect	—	—	—	—	—	—	34	41	9	—	—	—
Life in general	—	—	—	—	—	—	—	—	—	8	4	85

<sup>a</sup>W = worse, S = same, B = better.

<sup>b</sup>t-Test results for differences were statistically significant at  $P < 0.05$ .

of debtors in North America indicated that experiencing bankruptcy improved their financial situation. This was not indicated by the Japanese and Scottish debtors. U.S. and Canadian debtors also indicated that filing for bankruptcy had a positive influence on health status, family relations and employment status. Generally, debtors indicated that filing for bankruptcy had a negative influence on their social position and future borrowing. These negative effects were mentioned by most Scottish and Japanese debtors. Overall, most U.S. and Canadian debtors than Japanese and Scottish debtors identified positive effects of bankruptcy filings. As seen in Table 5, most of the differences were statistically significant.

In response to the question, 'would you file for bankruptcy again?', very few debtors said they would, but a majority would advise someone else to use bankruptcy as a solution to their problems. Those who would not advise others to file for bankruptcy had two reasons: 'it is nerve-wracking' and 'it is too stressful'. Overall, most Scottish debtors were dissatisfied and very critical of the process and of the professionals involved in the process. It was clear from the results that bankruptcy procedures and experiences with bankruptcy were quite different among the four countries.

The impact of bankruptcy and debt problems was unique among Japanese debtors. The majority of them indicated they borrowed more money to solve their financial problems before and even after bankruptcy. About half mentioned that debt collectors pressured their children even after they had filed for bankruptcy

which deteriorated relationships with their children (Table 6). Fifteen to twenty per cent also indicated they tried to commit suicide or run away from home because of their debt problems. A slightly larger proportion of debtors tried to run away or commit suicide after filing for bankruptcy (Table 7). Quite a few Japanese debtors also indicated that their debt problems and subsequent bankruptcy affected their children's education, future employment and marriage possibilities.

Debtors in each country made several specific recommendations for improving the bankruptcy process (Table 8). The majority of U.S. and Japanese respondents suggested the cost of bankruptcy filing be reduced. A majority of the debtors in the United States, Canada and Scotland recommended that other legal alternatives to bankruptcy be made available. The majority of bankrupts in all four countries suggested that the time involved in the bankruptcy filing be reduced, the process should have more privacy and the procedures more clearly explained.

Table 6. Impact of parents' debt problems on the lives of Japanese children (in percentages)

Problem faced by the children	Before bankruptcy (n = 121)	After bankruptcy (n = 121)
Education at school disturbed	17 <sup>a</sup>	18 <sup>a</sup>
Study at home disturbed	11	13
Financing education became harder	27	14
Entrance to the next level at school became difficult	27	6
Getting a job became harder	9	4
Children's marriage plans disturbed	3	3
Debt collectors pressured children	54	54
Children's relations with friends deteriorated	7	5
Parents' relationship with children deteriorated	27	26

<sup>a</sup>Due to multiple responses, totals do not add to 100%.

Table 7. Impact of debt problems on Japanese debtors (in percentages)

Actions taken by debtors due to debt problems	Before bankruptcy (n = 121)	After bankruptcy (n = 121)
Debtor or a family member tried to commit suicide	3 <sup>a</sup>	18 <sup>a</sup>
Ran away from home	17	37
Started drinking or gambling	6	2
Borrowed more money	57	64
Other	23	7

<sup>a</sup>Because of multiple responses, totals do not add up to 100%.

Table 8. Recommendations for improvement of the bankruptcy process (in percentages)

Recommendations	U.S.A. (n = 108)	Canada (n = 50)	Scotland (n = 92)	Japan (n = 121)
1. Reduce filing cost or lawyer fees	50 <sup>a,b</sup>	34 <sup>a</sup>	26 <sup>a</sup>	69 <sup>a,b</sup>
2. Make legal alternatives available	47	52	—	—
3. Reduce time involved	26	28	36	47 <sup>a</sup>
4. Give more explanation	31	32	41	—
5. Give more privacy during the process	40	24	28 <sup>b</sup>	—
6. Restrict credit availability by regulating vendors	19	22	9 <sup>b</sup>	—
7. Provide money management/finance counseling/budget service	36	38	—	—
8. Other (set lawyer fees, clear credit history, eliminate IRS <sup>c</sup> debt, stop wage garnishment)	2	6	—	—
9. Reduce discharge costs	—	—	—	4

<sup>a</sup>Due to multiple responses, totals do not add up to 100%.

<sup>b</sup>Tests results for differences were statistically different at  $P \leq 0.05$ .

<sup>c</sup>Internal Revenue Service.

About 40% of the Canadian and U.S. debtors recommended that financial counselling or money management education be provided as part of the bankruptcy process.

#### Impact of bankruptcy on use of credit and other money management practices

Major changes in the use of credit after filing for bankruptcy were identified in these three areas: (i) frequency of borrowing, (ii) the purpose of borrowing, and (iii) the source of borrowing. The majority of the respondents indicated that after filing for bankruptcy they drastically reduced the use of credit cards. Slightly more U.S. debtors than Canadian and Scottish debtors used credit cards after their bankruptcy experience.

Before bankruptcy, banks and credit cards were the most frequent sources of credit in the United States and Canada, whereas banks and instalment credit were the major sources of borrowing among Scottish debtors. Most of the differences were statistically significant. In all four countries, before bankruptcy, most of the respondents used credit for cars, appliances, furniture, and for the purchase of gifts, food, entertainment and travel expenses.

Very few respondents owed money on credit cards or instalment/credit. The most common reasons for borrowing were for mortgage or car loans. Most respondents in all four countries indicated that, after filing for bankruptcy, they mostly borrowed from banks and/or family and friends. The average amount of

total consumer debt excluding mortgage loans after bankruptcy was much lower than before bankruptcy; the mean amount of debt after bankruptcy was highest among Scottish debtors (\$8,583), followed by the U.S. (\$5,949) and Canadian debtors (\$4,274). The monthly debt payments after bankruptcy were also significantly lower than before the bankruptcy filing in each country. Monthly debt payments among debtors in the U.S. fell from \$2,027 to \$568; in Canada from \$1,527 to \$523; and Scotland from \$821 to \$336. This information was not available from Japanese respondents.

### Conclusion and implications

Debtors in bankruptcy were mostly not young, unemployed and burdened with increasing family responsibilities. Debts, in most cases, were unsecured and were nondurables and were mostly owed to credit cards and retail stores. A majority had borrowed for the purpose of supporting a lifestyle by extending available financial resources by borrowing. The main causes of bankruptcy as indicated by the bankrupts themselves were creditors' actions and too much borrowing. Unemployment, medical bills or personal problems did not top the list as one might expect. Most debtors did not have much in assets. Most debtors had not explored other methods or legal alternatives to bankruptcy. For example, in the United States, few had explored the use of Chapter 13 of the Bankruptcy Act. In most cases, there was no evidence of serious health problems and/or other incidences leading to unexpected expenses resulting in large debt. It appears that, in many cases, too much borrowing led to the bankruptcy filing, but the study did not explore the causes of too much borrowing.

The purpose of the bankruptcy process is to provide a fresh start to a debtor in distress. Based on a majority of responses, it can safely be concluded that, in Canada and the United States, debtors felt they had an opportunity for a fresh start. However, the same cannot be said for the majority of Japanese and Scottish debtors. They did not feel relieved from the debt burden, nor were they fully free of the debt collection efforts of creditors.

The bankruptcy process is also aimed at rehabilitating the debtor (in the United States and Canada the law states this objective). Rehabilitation involves 'restoring to good condition through education and therapy'. At present, the bankruptcy procedure does not incorporate a mechanism for exploring the real cause of bankruptcy; hence it is not logical to think it provides rehabilitation. Based on debtor responses, one can conclude that they learned the importance of money management in general and credit card management specifically. However, it is not possible to conclude whether they also learned the necessary skills. Repeat bankruptcy cases were observed among debtors in each country; this provides evidence that, in some cases, necessary skills to manage credit efficiently were not present even after the bankruptcy experience.

To help reduce the growth in bankruptcy cases and halt repeat bankruptcies, a

multi-level effort is needed. Those granting credit should carefully examine and practice responsible lending practices so that loans and credit cards are not given to those who have no obvious way of repaying their debt. Creditors could also recommend financial counselling to their clients who are falling behind in their payments in the early stages of repayment problems. The bankruptcy process should focus on identifying the underlying causes of bankruptcy so a rehabilitation service could be provided to debtors in bankruptcy.

Canada and the United States are in a position to focus on this specific aspect of the bankruptcy process. As far as Japan and Scotland are concerned, their bankruptcy procedures need to provide debtors with protection from creditors' collection efforts and a sense of relief from debt. However, learning from the North American experience, the process could simultaneously focus on the rehabilitative aspect of the bankruptcy process. All four countries need to examine their educational system to ensure that consumers are being appropriately prepared to function in the sophisticated and technically advanced credit society of the twenty-first century.

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