Troubled Companies on the Rise; Levels Near 2009 Peak

According to a recent Moody's Investors Service tally, the number of least-creditworthy companies rose by 10 this month to a recent high of 274. In 2009, the number of companies on financially shaky ground hit a record high at an astounding 291 companies. In light of the recent Moody's rankings, many are looking with a wary eye at the already shaky economy.

In 1909, John Moody first introduced ratings into the U.S. bond market when he published debt ratings in his *Manual of Railroad Securities*. While Moody's Investors Service asserts that the rating system "is not a statement as to which obligors or obligations will default in the future," it also notes, "It is expected that lower rated entities and obligations will default, on average, at a higher frequency than more highly rated entities and obligations."

The Moody's rating system uses information taken from a multitude of areas, including, but not limited to, annual reports, trust deeds, indentures, market data, stock price trends, and trading volume. The rating scale runs from a high of Aaa to a low of C and is comprised of 21 individual rating notches. Notes Moody's, "The historic default rate for Aaa-rated obligors is negligible, across all horizons. As one moves down the rating scale, default risk rises. Obligors rated in the lowest rating categories may in fact be in default."

The latest rise in the total number of troubled companies has been driven largely by the energy sector, with oil and gas companies such as Chesapeake Energy and SandRidge Energy accounting for nearly one-third of the total Moody's tally. That number is up from a much lower 14 percent in March of 2015. Retail was another troubled industry with The Sports Authority taking the limelight last Wednesday, March 2 as they filed for Chapter 11 bankruptcy protection.

The Obama administration has been touting an unemployment low of only 4.9 percent, the lowest level since 2008 and also lauding the creation of 151,000 jobs in January. Speaking to reporters at a White House press briefing in February, the president stated, "We should be proud of the progress we have made. We have recovered from the worst economic crisis since the 1930s."

While the White House preaches the gospel of a stronger-than-ever economy, small businesses are staggering beneath the weight of a burgeoning federal government and massive over-regulation — a condition no doubt contributing to the weakening of U.S. businesses. Documented by *The New American*, 2015 was a record-setting year for new federal regulations:

> According to a December 30 report by the Competitive Enterprise Institute (CEI), 2015 will earn

> the dubious distinction of being an all-time record-breaking year for the highest number of new federal regulations. When the report was issued just one day before the end of the year, the *Federal Register* — which contains government agency rules or proposed new rules and regulations — clocked in at a staggering 81,611 pages. Six of the seven years with the most regulations on record have been under President Obama, with the 2010 *Federal Register* holding the previous record at a massive 81,405 pages.

A study last year in California estimated that regulatory compliance cost the average small business an amazing $134,000 per year. Jon Leiber, chief economist at Thumbtack.com, noted, "Small business owners on Thumbtack have consistently told us that they welcome support from their government but are frequently frustrated by unnecessary bureaucratic obstacles" — a statement both believable and easily understood when factoring in the regulatory madness detailed in the *Federal Register*.

Thumbtack.com recently released the results of their Small Business Friendliness Survey wherein nearly 18,000 small businesses provided insights into state and local business environments across the nation. The survey showed Texas, New Hampshire, Utah, Louisiana, and Colorado top out with the highest rankings for small business friendliness, while California, Connecticut, Illinois, and Rhode Island each received an "F" by small business owners. Noted Thumbtack, "Small businesses in Texas and Utah have rated their states in the top five every year this survey has run, while California and Rhode Island have been rated in the bottom five every year."

The survey by Thumbtack gave grades to each state in these areas: Ease of Starting a Business, Ease of Hiring, Regulations, Health & Safety, Employment (labor and hiring), Tax Code, Licensing, Environmental, Zoning, and Training & Network Programs.

There are a couple of clear reasons to be concerned with the degree to which one's state is friendly and open to small business. Thumbtack.com found that "states with higher friendliness scores have substantially higher growth rates than their less friendly counterparts." They also found, "As more American middle class jobs face the threat of automation and competition from overseas, self-employment could become a viable path to making a living for millions of Americans."

Chuck DeVore, vice president of the Texas Public Policy Foundation, stated,

> The findings are clear: if states and cities want to encourage economic growth, they need to make themselves friendly to small business by simplifying regulatory licensing and tax compliance and by reining in government employees who view themselves as masters of the citizens they're supposed to be serving.

A Gallup Poll released early this year showed that at 16 percent, more Americans list dissatisfaction with the government as the nation's top problem. The economy ranked second at 13 percent, and unemployment rounded out the top three at 8 percent. The truth hidden in the Gallup poll lies in the dissatisfaction with the government. It may well be that many Americans know the truth: Fix problems in the government arena such as massive overregulation, and economy and unemployment will take care of themselves.

The Obama administration continues to preach that it created a stronger-than-ever economy. Meanwhile, it is ignoring plummeting labor force participation statistics (the share of the adult population that's either working or actively looking for work), and turning a blind eye to small businesses staggering beneath the weight of regulatory madness. Simultaneously, once vibrant and strong industries such as the energy sector and the retail industry are struggling to keep their heads above water.

The New American's Alex Newman listed an obvious solution to the regulatory leviathan which is choking the very wind from American enterprise:

> Of course, a better solution … to the regulatory tsunami sweeping over America and threatening its future would be for members of Congress to simply obey their oath of office to the U.S. Constitution. That means, for example, that all funding for unconstitutional bureaucracies would be cut, eliminating the need for Congress to vote on individual regulations. And there is nothing Obama could do about it. Obama's "pen and phone" could be de-funded, too. Then, state and local governments can take over any useful functions those federal agencies or programs may have performed — assuming there are any — and the American people can once again enjoy the freedom bequeathed to them by the Founders.

Newman is correct. What labor and industry in the United States need most is oxygen, and regulatory madness is choking the very wind from commerce and production. As the Moody's Investors tally highlights U.S. businesses across the country that are struggling to keep doors open, the answer will not come in the form of new taxes or additional regulation. The answer for struggling businesses is to get government out of the way and to release the regulatory choke-hold the government has on the windpipe of American industry.