Financing State And Local Government In The 1980's

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In the 1980s, the United States experienced its most serious banking crisis since the 1930s and the second most serious crisis in its 200-plus year history. The crisis affected commercial banks, savings banks and savings and loan associations (S&Ls). Much of this boom was financed by local S&Ls. When oil prices not only failed to increase further after 1981, but declined sharply from $30 a barrel in 1985 to near $10 in 1986, the bubble burst. As incomes and real estate values dropped, borrowers defaulted on loans, and collateral values fell too fast for many lending S&Ls to protect the value of all their loans. The government first created many of the underlying causes of the problem by forcing S&Ls early 1980s made it impossible to finance these deficits, a period of severe fiscal retrenchment became inescapable (see Figure 2.1). Where possible the analysis is extended to include state and local governments and SOEs, but conclusions based on data for the entire public sector have to be treated with caution. The weakness of public finance data has complicated the design and implementation of public finance policies. This is all the more troublesome in view of the rapid increase of the public sector worldwide.