Carter’s economic policies led to savings and loan failure

[Economics](#)

The Savings and Loan crisis of the late 1980's and early 1990's cost approximately $160 billion, out of which the American taxpayer shouldered in excess of $120 billion in Government bailout measures. The huge budget deficits that resulted can only be compared to the current global economic crisis. However, the genesis of the S & L crisis can be traced back to the failed economic policies of President Jimmy Carter. When Jimmy Carter took over as president in 1979, he inherited an economy in recession. Oil prices were high, unemployment and incomes were low.

In order to stimulate the economy, he proposed to increase government spending and introduce tax cuts, but withdrew the former and vetoed the latter when interest rates continued to rise. Instead, when inflation peaked in 1978, the chairman of the Federal Reserve Board, Paul Volcker, initiated policies to tame inflation by reducing themoneysupply and increasing interest rates. However, these measures had a negative effect and inflation skyrocketed, unemployment reached 11 percent, accompanied by a prime rate of 21. 5 percent (Federal Deposit Insurance Coorporation, 2006).

In this climate, the savings and loan institutions could not survive. They were now confronted with asset-liability-mismatches where the costs they were incurring on short term funding were higher than the returns they were getting on fixed-rate-mortgages. Additionally, the passage of the Depository Institutions Deregulation and Monetary Control Act, introduced risks and opportunities which the S & L'S were not qualified to administer. Inevitably, many S & L's began to go under. In retrospect, Jimmy Carter's policies should have focused on lowering interest rates and possibly left the money markets as they were.

References

1. Federal Deposit Insurance Coorporation (2006, February). The 1970’s. Retrieved on July 27, 2009 from http://www. fdic. gov/about/learn/learning/when/1970s. html