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March 23, 1993

WP/92/112
Correction 1

Subject: U.S. State and Local Government Finances Over the Current Cycle

The attached title page for WP/92/112 (December 1992) is reissued to correct a typographical error in the footnote.

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WP/92/112

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Research Department

U.S. State and Local Government Finances Over the Current Cycle

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Approved for Distribution by Peter B. Clark

December 1992

Abstract

The recent slowdown in the U.S. economy has led to state and local government tax increases and expenditure cuts that have lowered aggregate demand, in contrast to earlier downturns when the sector provided significant automatic stabilizers. Several explanations for this change are examined, including the role of federal grants, mandates, tax revolts, and compensation. The first three factors are found to be relatively unimportant. There does, however, appear to have been a large change in relative compensation over the 1980s, which can account for much of the deterioration in finances.

JEL Classification Nos.:

E62, H72

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