



## BANKING IN THE 1980s: WHAT WENT WRONG?

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ST. LOUIS -- The 1980s were not kind to the banking industry. Not only did the rate of bank failures increase sharply, but banks in general experienced more loan problems and dwindling capital. What went wrong? Could it happen again?

In "Explanations for the Increased Riskiness of Banks in the 1980s," an article in the current issue of the Review, the Federal Reserve Bank of St. Louis' bimonthly research journal, Economist Sangkyun Park discusses factors that contributed to the downfall of the banking industry during the 1980s.

According to Park, banks deteriorated during the 1980s because there were increased incentives for risk-taking by bank stockholders, desperate risk-taking by bank managers to increase profits and unexpected economic shocks, like the collapse of real estate markets.

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Another article in the Review, "Trade Between the United States and Eastern Europe," by Economist Patricia S. Pollard examines the recent changes in trade flows between the United States and countries in Eastern Europe.

According to Pollard, most of the trade between the United States and Eastern Europe since the end of World War II has been very small. However, with the collapse of the Soviet system, Eastern Europe has begun to re-direct trade to the West as it initiates both political and economic reforms.

"This increased trade not only benefits the United States' economy, but is directly linked to Eastern Europe's efforts to establish and maintain political stability," asserts Pollard.

Other articles in this issue include: "The New Structure of the Housing Finance System," by Economist John C. Weicher; and "The Inflation Tax and the Marginal Welfare Cost in a World of Currency and Deposits," by Economist Alvin L. Marty.

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