

cent. On the other hand, nonguaranteed issues outstanding increased from \$29.2 billion to \$37.8 billion, a rise of 29.4 percent. This shift, in evidence over the entire post World War II period, produced a mix of 60 percent full faith and credit obligations and 40 percent nonguaranteed obligations by 1965, compared with a mix of 62.3 percent full faith and 37.7 percent nonguaranteed in 1962. The persistence of this trend over a 20-year period is attributable to debt limitations and tax restrictions combined with continuing strong demand for capital construction. By devising means of nonguaranteed debt issuance, many State and local governments, and their elected officials, have found a way to satisfy their voters without unduly arousing their taxpayers. The significance of this practice for the future will be discussed later.

WHAT IS A DEFAULT?

In general, a default is a failure to do what is required by law or by peculiar function, an omission of what ought to be done. More specifically, it is a failure to pay financial debts. Sometimes default is extended to mean any failure in fulfilling a contract or agreement. Thus, if a toll road agency agrees with its bondholders in a trust indenture to set toll rates at levels to produce a specified level of revenues, and does not do so, technically it is in default, even though it continues to meet all of its financial obligations. As used here, however, a default is the failure of a State or municipal government or other local subdivision to pay the principal of or the interest on its debt obligations at the time of maturity.

Information on State and local government bond defaults is not easy to obtain. Because of the generally good record of these bonds there has been little effort in the postwar years to compile comprehensive data on the subject, as was the case in the 1930's. So each default, by its very nature, is a secretive matter. If it is reported, details are minimized. Consequently, this discussion cannot be complete or pretend to be comprehensive. It covers only the better known situations and fragments of others.

DEFAULT EXPERIENCE IN THE POSTWAR PERIOD

A search of primary sources of default experience reveals that in the postwar period there have been 30 instances of failure to pay principal or interest or both when due. By State, the reported defaults are as follows:

Arizona -----	2	Michigan -----	1
California -----	7	Nebraska -----	2
Florida -----	3	New Mexico -----	1
Idaho -----	1	South Carolina -----	2
Illinois -----	1	Tennessee -----	2
Kentucky -----	2	Vermont -----	1
Louisiana -----	2	West Virginia -----	3

In nearly every instance of default the bonds that were issued were special purpose, limited liability obligations. In several cases there was no loss to the bondholder as the cause of the difficulty was cured, or, in one instance, moneys were appropriated by a legislature to pay off the defaulted obligations. Most of the issues were relatively small in size and involved obscure, unknown issuers. Among the defaulting issuers at least two cases of alleged fraud were involved.