

News



Release

PRICE STABILITY SHOULD BE THE PRIMARY GOAL OF MONETARY POLICY

FOR INFORMATION CONTACT:
Jackie A. Himmelberg, 314-444-8311

95-51

FOR RELEASE MAY 4, 1995

ST. LOUIS -- Price stability should be the primary goal of monetary policy and, if achieved, will improve the U.S. economy, says Economist Kevin L. Kliesen of the Federal Reserve Bank of St. Louis.

In "A Fed Focused on Price Stability: The Benefits of a Single Target," an article in the spring issue of *The Regional Economist*, the St. Louis Fed's quarterly review of business and economic issues affecting the Eighth Federal Reserve District, Kliesen examines the benefits of price stability and discusses why legislative action is needed to ensure that price stability is the primary goal of monetary policy.

(more)

PRICE STABILITY/2

According to Kliesen, the benefits of long-run price stability include: low unemployment; a reduction in uncertainty associated with economic decisions; faster productivity growth; and low and stable long-term interest rates.

Kliesen believes that one way to achieve price stability is with a multi-year inflation or price level target that requires the Fed to implement policies consistent with achieving a pre-determined price level over a given time period.

"Such a mandate would provide clear and convincing evidence of the Fed's commitment to maintaining a healthy economy," says Kliesen. "Moreover, the process of developing, implementing and maintaining monetary policy would be more consistent."

Two additional articles complete the publication. In "Commercial and Investment Banking: Should This Divorce be Saved?" Economist Michelle A. Clark discusses the events that led to the separation of commercial and investment banking in the 1930s and looks at the pros and cons of allowing the industries to reunite. She also outlines three current proposals to repeal the separation, including one that would permit banks to be owned by commercial firms like General Motors. Economist Adam M. Zaretsky looks

(more)

PRICE STABILITY/3

at TennCare, Tennessee's solution to escalating Medicaid costs, in
"Revamping Medicaid: One State's Attempt at Reform."

The Federal Reserve Bank of St. Louis has branches in Little Rock,
Louisville and Memphis. It serves the Eighth Federal Reserve District,
which includes all of Arkansas, eastern Missouri, southern Indiana and
Illinois, western Kentucky and Tennessee, and northern Mississippi.
