NEWS RELEASE

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WANT CENTRAL BANKERS TO "DO THE RIGHT THING"? TRY A PERFORMANCE CONTRACT

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ST. LOUIS — One of the biggest challenges confronting monetary policymakers is to stabilize the economy without increasing inflation. But what's the best incentive to get them to do that?

In the current issue of ***Review***, the bimonthly research journal of the Federal Reserve Bank of St. Louis, economist Christopher J. Waller examines a new proposal: performance contracts, which would provide the proper financial incentives for the central bank to pursue price stability.

Considering several types of performance contracts, Waller notes New Zealand's recent restructuring of its central bank and that country's success with an explicit target range for inflation. Although Waller emphasizes the benefits of insulating the central bank from political influence, he concedes that political infeasibility may be a stumbling block to

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establishing performance contracts. Nevertheless, he believes that performance contracts "could well turn out to be the foundation for the design of central banks in the 21st century."

Other articles in this issue of ***Review*** are:

- "Capacity Utilization and Prices Within Industries," by economist Peter S. Yoo. The capacity utilization rate is a commonly used indicator of future price changes, and studies often find that the total industry capacity utilization rate and inflation are related. Yoo examines capacity utilization rate data and price data for 23 industrial sectors to see if the two variables show significant correlations within industries.
- "Deflation and Real Economic Activity under the Gold Standard," by economists Christopher L. Neely and Geoffrey E. Wood. With inflation rates around the globe at their lowest in years, concerns have been raised about falling prices. Neely and Wood examine the facts surrounding the temporary periods of deflation (a fall in the general price level) that occurred under the gold standard from 1870 to 1913.

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