The Federal Reserve Bank of St. Louis

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Media Advisory (5/28/96)

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Federal Reserve Bank of St. Louis Publishes March/April *Review*

The March/April 1996 edition of ***Review***, the Federal Reserve Bank of St. Louis' bimonthly journal of economic and business issues, features the following articles:

• **"A Revised Measure of the St. Louis Adjusted Monetary Base."** Economists Richard G. Anderson and Robert H. Rasche discuss the results of their research behind the revision of the widely followed St. Louis Adjusted Monetary Base and how banks have been managing reserves since the Monetary Control Act of 1980 was introduced.

• **"Opening Pandora's Box: The Measurement of Average Wages."** Economist Joseph A. Ritter points out that the three common sources for data on average wages — average hourly earnings, compensation per hour, and the employment cost index—

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appear to measure the same thing, but often yield different answers. His analysis shows why there is no single answer to a common election-year question: Are workers better off than they were?

• **"The Cost and Benefits of Price Stability: An Assessment of Howitt's Rule."** One argument against price stability as the primary objective of monetary policy is that living with a "little" inflation costs less than achieving a stable price level (a premise called Howitt's Rule). Economist Daniel L. Thornton assesses the conditions that this premise requires and shows how reduced output growth caused by inflation might dramatically affect the outcome. He then compares the costs of achieving price stability with the benefits of stable prices.

Note to editors: A news release on the St. Louis adjusted monetary base follows.

NEWS RELEASE

The Federal Reserve Bank of St. Louis
St. Louis Little Rock Louisville Memphis

For release: May 28, 1996

St. Louis Fed Introduces New Measurement of Monetary Base

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ST. LOUIS — The Federal Reserve Bank of St. Louis is changing its adjusted monetary base, a widely monitored measure of the direction of monetary policy. The revisions should be more helpful to researchers who track the link between the growth of the monetary base and inflation, as well as provide a clearer picture of how banks manage their reserves.

Richard G. Anderson, an assistant vice president and an economist at the Federal Reserve Bank of St. Louis, worked on the project with Robert H. Rasche, a professor of economics at Michigan State University and a visiting scholar at the Bank. The results of their effort appear in the March/April 1996 issue of *Review*, the St. Louis Fed's bimonthly journal of economic and business issues.

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"With the introduction of the Monetary Control Act of 1980," explained Anderson, "many depository institutions found their demand for base money driven more by their retail deposits and interbank payments than by legal requirements of the Federal Reserve, yet the St. Louis measure of the monetary base excluded 20 to 25 percent of banks' deposits at the Fed, deposits used primarily for handling interbank payments. Consequently, we needed to update the measure to capture what is really happening."

The revisions change only the adjusted reserves component of the base. The currency component is unaffected. Since its introduction in 1968, the St. Louis Fed's adjusted monetary base has been often cited as an indicator of the results of Federal Reserve policy actions.

Data for both the old and new measures of the monetary base will be available through the end of 1996. They can be obtained either through the Federal Reserve's home page on the World Wide Web or FRED (Federal Reserve Economic Data, an electronic bulletin board) by dialing (314) 621-1824 through a modem-equipped personal computer.

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Subscriptions to *Review* are free and can be obtained by calling (314) 444-8809. The publication is also available on the Internet; the address is http://www.stls.frb.org.

The Federal Reserve Bank of St. Louis serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana and southern Illinois, western Kentucky and western Tennessee, and northern Mississippi. The Bank has branches in Louisville, Memphis and Little Rock. In addition to serving as a bank for depository institutions and the U.S. government, each Reserve Bank supervises state-chartered member banks and bank holding companies, monitors economic conditions in the District and participates in formulating monetary policy.

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