NEWS RELEASE

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

Media Advisory
Nov. 23, 1999

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St. Louis Fed's *Regional Economist*:
Down, But Not Out: The Future of Community Banking
NAIRU: Tailor-Made for the Fed?
Revamping Medicaid: A Five-Year Check-Up on Tennessee's Experiment
A Tale of Two Cities: Hannibal, Mo., and Quincy, Ill.

ST. LOUIS, Mo. — The latest edition of *The Regional Economist*, the Federal Reserve Bank of St. Louis' quarterly journal of economic and business issues, features the following articles:

• **"Down, But Not Out: The Future of Community Banks."** Of the more than 8,500 U.S. commercial banks in business during the first quarter of 1999, about 82 percent were community banks — those that have less than $300 million in assets and are not owned by a large bank holding company. Recent changes in the U.S. banking environment, however, such as increased competition, advances in technology and deregulation, threaten the long-run viability of community banks. Timothy J. Yeager, an economist with the Banking Supervision & Regulation Division of the St. Louis Fed, looks at the pressures and changes that community banks must confront. In spite of the aforementioned challenges, he argues that although community banks' market share may decline over time, they will have a role to play in the future because they provide personal service and cater to small businesses.

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• **"The NAIRU: Tailor-Made for the Fed?"** Some critics of the Fed have accused the Federal Open Market Committee (FOMC) of basing monetary policy on concepts and indicators such as NAIRU (Non-Accelerating Inflation Rate of Unemployment) and the Phillips curve. Economist Kevin L. Kliesen studied the FOMC's actions against the backdrop of these two frameworks. He found that although the unemployment rate has persisted well below NAIRU since May of 1995, the FOMC has increased the federal funds rate only three times since then. (Note: Kliesen wrote his article before the FOMC's November 16 meeting.) In fact, because of the Asian crisis and the Russian debt default last year, there have been twice as many *reductions* as increases in the federal funds rate over the same period.

• **"Revamping Medicaid: A Five-Year Check-Up on Tennessee's Experiment."** In January of 1994, with a blessing from the federal government, the state of Tennessee replaced Medicaid with a managed care system of its own known as TennCare. So how is the system doing five years later? Economist Adam M. Zaretsky found that the new system succeeded in bringing health insurance to individuals who previously did not (or could not) otherwise obtain it. Financially, however, TennCare is in poor shape because the program failed to properly pool and price the risk of its beneficiaries. Zaretsky concludes that more-prudent risk management and more flexibility in pricing should hold the program in good stead.

• **"A Tale of Two Cities: Hannibal, Mo., and Quincy, Ill."** Hannibal, Mo., and Quincy, Ill., sit on opposite sides of the Mississippi River and have employed different approaches to economic development. In 1978, Quincy formed the Great River Economic Development Foundation, a private, non-profit organization to retain existing businesses and attract new ones.

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Hannibal, however, has taken a considerably more subdued approach. So whose approach is working? Jeryldine Tully, the managing editor of *The Regional Economist*, argues that both cities are discovering that a regional approach may hold the key to their future.

Subscriptions to *The Regional Economist* are free and can be obtained by calling (314) 444-8809. The publication is also available on the Bank's Web site: www.stls.frb.org.

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