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St. Louis Fed's *Review*: Measuring Monetary Policy Inertia in Target Fed Funds Rate Changes The U.S. Trade Deficit and the "New Economy" Credit Unions and the Common Bond Seasonal Production Smoothing

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

• **"Measuring Monetary Policy Inertia in Target Fed Funds Rate Changes."** Recent research regarding Federal Reserve policy actions has grappled with an apparent paradox: Why would a central bank that is focused primarily on controlling inflation show signs of inertia when making policy adjustments? Economist Michael Dueker argues that this policy inertia must be fully characterized before this apparent paradox can be resolved. Using empirical estimates of the adjustments to the target fed funds rate, Dueker concludes that with a more complete picture of the policy inertia, researchers can investigate whether policy appears to display too much or the right amount of inertia.

• **"The U.S. Trade Deficit and the 'New Economy.'"** Amid the overall strength and longevity of the U.S. economic expansion of the 1990s, the trade deficit is one indicator that is viewed with alarm. Economist Michael Pakko discusses some of the basic principles about the deficit and its connection to the "New Economy." Pakko says that recent deficits

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should not be thought of as a weakness but, rather, a reflection of the same forces underlying the nation's economic strength. The bigger question Pakko poses is: What are we doing with the money we're borrowing? Since the United States is leading the world in investment in technology, Pakko says that borrowing to finance this kind of investment may yield a flow of profits or services over time. He concludes, however, that only after new technologies have been fully integrated into the production processes will we be able to fully evaluate the claim that we are enjoying a New Economy.

• **"Credit Unions and the Common Bond."** A distinguishing feature of credit unions is the legal requirement that members share a common bond. This principle recently became the focus of national attention when the Supreme Court and the U.S. Congress took opposite sides in a controversy regarding the number of common bonds (fields of membership) that could co-exist within a single credit union. Economists William R. Emmons and Frank Schmid developed a model of credit-union formation and consolidation to examine the effects of common-bond restrictions on the performance of credit unions. The performance measures were participation rates among potential members and the operating costs of credit unions. They find that for a given number of potential members, credit unions with multiple-group charters have higher participation rates. They also find that for a given number of members, operating costs of multiple-group credit unions are higher. Average operating costs at large credit unions, however, decrease as the number of members increases.

• **"Seasonal Production Smoothing."** Empirical tests of the production-smoothing hypotheses have yielded mixed results. Economist Donald Allen finds evidence of seasonal production

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smoothing in 15 out of 25 manufacturing series and eight out of 10 retail series, using detrended seasonally unadjusted data. The equivalent test using seasonally adjusted data were negative for all 35 series. Allen's results suggest that seasonally adjusted data obscure short-term production smoothing.

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

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