In order to strengthen public policy research on economic and financial issues facing rural America, the Federal Reserve Bank of Kansas City will create The Center for the Study of Rural America. The new Center will be implemented at midyear 1999, and will be headed by Mark Drabenstott, currently vice president and economist at the Bank. The Center will produce studies and analyses of rural and agricultural issues of importance to the Federal Reserve, other public policymakers, and the general public. For the Federal Reserve, the Center’s research will be particularly relevant to all its major functions including monetary policy, banking supervision, and financial services. The Center’s mission is important because the rural economy often performs quite differently and is often more volatile than the rest of the U.S. economy.

The Year 2000 issue will touch much more than just our financial systems and could temporarily have adverse effects on the performance of the overall U.S. economy as well as the economies of many, or all, nations if not corrected, said Edward Kelley, Jr., a member of the Board of Governors, when he spoke before the Committee on Banking and Financial Services in September. Kelley noted that while it is impossible today to precisely forecast the effect of this event, an enormous amount of work is being done in anticipation of the date change. Kelley added he was optimistic that all the work would pay off. He went on to explain the many actions the Federal Reserve is taking to prepare itself and help banks prepare for the date change. A copy of his speech is available on the Internet on the Board of Governors Web page at www.bog.frb.fed.us.

Central banks that adopt inflation targets may improve the transparency, accountability, and credibility of monetary policy but, in most cases, the targets have had little systematic effect on the way policy instruments are adjusted to incoming information regarding the economy. That’s the view resulting from a new study by economists at the Federal Reserve Bank of Kansas City who report their findings in the third quarter issue of Economic Review, the Kansas City Fed’s research journal, and on the Bank’s Web site at www.kc.frb.org. In their article, “Conducting Monetary Policy with Inflation Targets,” George Kahn, vice president and economist, and Klara Parrish, assistant economist, examined how central banks have changed their policy procedures after adopting explicit inflation targets. They summarized the key features that characterize and motivate most inflation-targeting regimes, documented procedural changes a number of central banks have taken to implement inflation targeting, and examined empirical evidence to see if and how inflation targets have changed the way monetary policy reacts to economic information.

According to the authors, inflation targets are designed to help a central bank achieve long-run price stability by providing a nominal anchor for monetary policy, by improving the transparency and accountability of
monetary policy, and by enhancing the central bank’s inflation-fighting credibility.

Central banks in nine countries currently use inflation targets to conduct monetary policy, generally targeting an inflation rate below 3 percent. Kahn and Parrish presented detailed case studies of four of these central banks—New Zealand, the United Kingdom, Sweden, and Canada—examining in each case the price index used as a target, the caveats or exemptions employed, the inflation-forecasting procedures used, and the various approaches taken to ensure transparency and accountability.

Using the experiences of the same four countries, they analyzed fluctuations in short-term interest rates for evidence of significant and systematic changes in the way monetary policy was conducted after inflation targets were introduced. As a “control” case, they also discussed the experience of the United States, which has not adopted numerical inflation targets.

Their empirical evidence was mixed as to whether inflation targets have led to changes in the way central banks conduct monetary policy in the short run. While all four countries in their study have brought inflation down to a level near or within their targets, Kahn and Parrish pointed out that inflation has also improved in countries without targets. In the United States, for example, consumer price inflation has fallen from more than 5 percent in 1990 to around 2 percent in 1997.

They concluded, “While inflation targeting may help some central banks lower inflation, they have not been necessary for others. Inflation targets may simply formalize a monetary policy strategy that, in many cases, was already implicitly in place.”

President Clinton recently announced his intent to nominate Edwin Truman to be Assistant Secretary of the Treasury for International Affairs. Truman currently serves as the staff director of the Division of International Finance for the Federal Reserve System’s Board of Governors. He has served as staff director since 1987. Prior to that position, he was director of the Division from 1977 to 1987. And since 1983, Truman has been one of three economists for the Federal Open Market Committee. In addition, he has been a member of numerous international groups working on international economic and financial issues.

In a written statement given on behalf of the Federal Reserve Board, Chairman Alan Greenspan stated, “Our valued associate and good friend Ted Truman has been an integral fixture of the Federal Reserve for 26 years. His influence has been both pervasive and beneficial.”

In his new position, Truman will advise and assist the Secretary, Deputy Secretary, and Under Secretary for International Affairs in the formulation and execution of U.S. international economic policy. The office’s responsibilities include developing and executing U.S. policy in the areas of international economic and financial diplomacy, international monetary policy issues, and economic policy cooperation among industrial nations.

Roger Ferguson, Jr., member of the Board of Governors, spoke to a packed house during a luncheon at the Kansas City Marriott on September 17. The lunch took place in conjunction with a joint meeting of the board of directors of the Federal Reserve Bank of Kansas City, which has branch offices in Denver, Oklahoma City, and Omaha. Board members, officers from all the Bank’s offices, Kansas City area business leaders, and members of the media
When tomorrow’s little piggies go to market, they may come from some unusual places, according to Mark Drabenstott, vice president and economist at the Federal Reserve Bank of Kansas City.

Drabenstott examined the future of the U.S. pork industry in a new article for the third quarter issue of *Economic Review*, the Kansas City Fed’s research journal. His analysis, titled “This Little Piggy Went to Market: Will the New Pork Industry Call the Heartland Home?” is also available on the Bank’s Web site at [www.kc.frb.org](http://www.kc.frb.org).

Drabenstott reviewed the recent changes in the structure of the U.S. pork industry, analyzed the economic factors and environmental regulations that are likely to influence the future location of the industry, and drew some conclusions about possible geographic shifts in pork production. He pointed out that, whereas raising hogs was once heavily concentrated in Corn Belt states, a new supply chain structure is shifting the industry into new areas.

“The new chain structure in the U.S. pork industry is resulting in dramatic structural and regional shifts in pork production,” he explained. “A rapidly growing portion of production now occurs under contract or some form of business alliance, with production concentrating in the hands of relatively few large operators. As the pork industry’s structure has changed, so has its geography. “Where the $28 billion pork industry locates in the future carries big economic implications,” Drabenstott wrote. “The Heartland states of the Tenth Federal Reserve District (Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming) have a major stake in the location outcome. These states now account for nearly one-fifth of the nation’s hog production, a share that has roughly doubled in the past decade.”

Economic issues and the regulatory environment will likely dictate future geographic shifts, Drabenstott noted. While production costs on large Corn Belt hog farms are significantly lower than in most other regions of the world, costs are lower still in the prairie provinces of Canada where recent changes in agricultural policy tend to encourage new livestock production to spur growth.

Environmental regulations and enforcement policies will also be a major influence on the future location of the pork industry in Drabenstott’s view. Most observers believe location decisions of large pork operations are driven, at least in part, by the desire to find areas with more space, fewer people, and less restrictive regulations. Absent a national set of environmental standards and with different regulations across national borders, segments of the U.S. pork industry could locate in Canada, Mexico, or even in South America, thanks largely to trade agreements that eliminate nearly all tariffs on trade in pork products and live hogs.

“Although some U.S. pork production may migrate to other countries, the Heartland will remain home to a big share of the industry. Some states will come up with regulatory regimes friendly to the pork industry and those states are most likely to be found in the Heartland where rural populations are smaller and where economic alternatives are fewer. In the end, the emerging regulatory environment may only reinforce the economic forces pushing the new pork industry to the Heartland.”
Federal Reserve supports direct deposit campaign

More than 65 million checks are forged or altered each year. On average, the U.S. government spends 41 cents more to process a check than to process a direct deposit transaction. The Department of Treasury replaces more than 800,000 checks each year. Almost 1 percent of America’s annual gross domestic product—approximately $33 billion—is spent printing, issuing, sorting, and mailing checks.

These are just a few reasons Federal Reserve Banks have joined forces with the Department of Treasury, the National Automated Clearing House Association (NACHA), and regional ACH associations to promote and implement a nationwide direct deposit campaign. The campaign supports the implementation of EFT 99—the Treasury’s initiative to issue most of its payments electronically—as well as commercial efforts to increase the use and awareness of direct deposit for payroll and other recurring payments.

Information about direct deposit and the Automated Payments Partnership is available at www.apppartnership.org. Information is also available from regional ACH associations and on the Direct Deposit Coalition’s Web site at www.directdeposit.org.

Mark your calendar

The Federal Open Market Committee (FOMC) released its meeting schedule for 1999. The schedule is tentative, however, in light of the Committee’s practice of confirming the date for each meeting at the preceding meeting.

Following are the planned meeting dates.

- February 2 and 3
- March 30
- May 18
- June 29 and 30
- August 24
- October 5
- November 16
- December 21

The FOMC is composed of the seven members of the Board of Governors and five of the twelve Reserve Bank presidents. The president of the Federal Reserve Bank of New York is a permanent member. The other presidents serve one-year terms on a rotating basis.

The FOMC oversees open market operations, which is the main tool used by the Federal Reserve to influence money market conditions and the growth of money and credit. In addition, the FOMC directs operations undertaken by the Federal Reserve in foreign exchange markets.

Holiday reminder

The Federal Reserve Bank of Kansas City will be closed on November 11 for Veterans’ Day and on November 26 for Thanksgiving Day.