

Contents

First Quarter 2004, Volume XXVIII, Issue 1

2 The state of the state and local government sector: Fiscal issues in the Seventh District

Richard H. Mattoon

This article reviews the state and local budget situation, particularly in the states of the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin). These states have pursued different fiscal policies over the last decade and have relied on different tax structures to pay for government, yet all are facing significant budget shortfalls.

18 Cyclical implications of the Basel II capital standards

Anil K Kashyap and Jeremy C. Stein

This article reviews the economic efficiency implications of the Basel II capital standards. The authors argue that the mapping from measures of loan risk to capital requirements should not be time-invariant, but rather should be allowed to vary with business cycle conditions. They also attempt to assess empirically how much cyclicity in capital requirements might be induced by the current Basel II proposal. They find that the degree of cyclicity can be substantial.

Conference on Bank Structure and Competition announcement

34 Poor hand or poor play? The rise and fall of inflation in the U.S.

François R. Velde

Inflation in the U.S. rose in the 1970s and fell in the 1980s and 1990s. The conventional story attributes this pattern to changes in monetary policy: Policymakers made errors and learned from them. This article presents the story and existing alternatives that emphasize instead changes beyond the Fed's control. The author also reviews the recent empirical literature on the role played by changes in luck versus changes in policy and finds substantial evidence for both.

52 The acceleration in U.S. total factor productivity after 1995: The role of information technology

John G. Fernald and Shanthi Ramnath

Under standard conditions, total factor productivity (TFP) growth measures the pace of innovation or technological change in the economy. This article focuses on the period since the mid-1990s, when TFP accelerated. The authors find that most of the acceleration is accounted for by industries that *use*, rather than sectors that *produce*, information technology.