

President's Message

The Federal Reserve Bank of St. Louis has long emphasized the central role of monetary aggregates in the conduct of monetary policy. Appropriate long-run growth of the supply of money is essential to attaining the principal goal of monetary policy—price stability—which, in turn, is necessary to maximize sustainable growth in the economy. And the monetary aggregates have, in fact, played important roles as indicators of monetary policy in connection with the actions leading to the deceleration of U.S. inflation over the last several years.

Translating the abstract scientific concept of “money” into a measurable empirical counterpart has often been controversial. Obviously, a monetary aggregate must include the exchange medium of the economy, including currency and checkable deposits. The spending plans of households and firms are also affected by and reflected in the quantities of other liquid assets that they hold. How many of these should be included in a monetary aggregate? And, by what criteria should they be selected?

Studies of the measurement of money tell us that the answers to these questions change through time. Financial innovation changes institutional arrangements and practices, forcing us to revise our measures of money. In some cases, new financial instruments such as money market mutual funds are added to the monetary aggregates. In other cases, increasing similarity among financial institutions may require a major change in the institutional coverage of the aggregates. We experienced both of these phenomena in the 1970s. Technological progress continues to cloud our measures of money by reducing the transaction costs of quickly exchanging one asset for another.

Our staff in St. Louis has contributed in a number of ways to the measurement of monetary aggregates. Thirty-three years ago, William Abbott's revised M1 monetary aggregate appeared

in the *Federal Reserve Bulletin*. Twenty-five years ago, the St. Louis adjusted monetary base first appeared in this Bank's *Review*. Through widely circulated publications such as *Monetary Trends and U.S. Financial Data*, Homer Jones and his successors have disseminated monetary aggregates data to a worldwide audience of analysts and researchers.

Research at St. Louis has also examined the policy implications of linkages between various monetary aggregates and nominal economic variables. This year, for example, marks the 25th anniversary of publication in the St. Louis Fed's *Review* of Leonall Andersen and Jerry Jordan's seminal research linking the growth of nominal income to the growth of the M1 monetary aggregate.

Today, some suggest that the monetary aggregates may no longer be useful guides for monetary policy. The weaker-than-anticipated growth of M2 during the recent economic recovery and expansion has brought to the forefront once again issues regarding the measurement, modeling, and continued policy usefulness of monetary aggregates. I am hopeful that the presentations and discussions presented at this conference will improve our understanding of the issues involved in measuring money and the implications of alternative measures for the conduct of monetary policy.

Thomas C. Melzer
 President and Chief Executive Officer
 Federal Reserve Bank of St. Louis