

FEDERAL RESERVE BANK OF ST. LOUIS

P. O. Box 442  
ST. LOUIS, MISSOURI 63166

FILED IN RECORDS SECTION

MAR 29 1978

March 29, 1978

LAWRENCE K. ROOS  
PRESIDENT

Mr. J. Charles Partee, Chairman  
Committee on the Directive  
Board of Governors of the Federal  
Reserve System  
Washington, D. C. 20551

Dear Chuck:

I am writing in support of President Baughman's memo to the Federal Open Market Committee dated March 6, 1978. As you recall, it suggested that the FOMC extend aggregate targets to a period of three years. We strongly support this recommendation.

To underscore, or perhaps to add to the reasons Ernie has given, we invite your attention to the following:

1. If the impact of monetary policy on inflation is indeed as long-lasting as most empirical studies suggest, and price stabilization is a primary goal of monetary policy, it is difficult on any logical basis to defend policy formulation relative to monetary aggregates on a monthly or quarterly basis.
2. Since it is fairly generally agreed that inflationary anticipations substantially affect wages, investment, long-term interest rates and exchange rates, it seems that a better way to combat the uncertainties of inflation rates would be to announce monetary growth rates for a longer period of time and demonstrate that the FOMC is determined to adhere to such growth rates.

FOR FOMC FILE  
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Mr. J. Charles Partee

March 29, 1978

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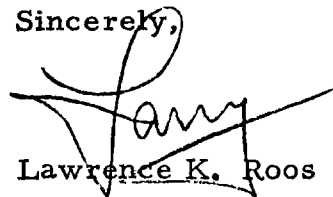
3. The political pressures which frequently militate toward a departure from longer-range monetary growth plans would be easier to withstand if long-run targets were agreed upon and made generally known.

I would emphasize that I do not believe that these long-range targets should be absolutely invariant. If conclusive evidence indicates that certain economic relationships have changed, there should be flexibility to change long-range targets. An annual evaluation of how short-run policy adheres to or departs from long-range targets and an annual consideration of behavior changes would be appropriate.

Again, we respectfully recommend that this matter receive careful consideration.

With warm regards,

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence K. Roos", written over a horizontal line.

Lawrence K. Roos

cc: All Members of the FOMC