can be had, one or two quarters may be the minimum period. If the central bank has reason to mistrust its seasonal adjustment, the averaging period may have to be further extended. The important thing is that, with the moving average centered at the midpoint of the period, the shortest period over which the central bank can attain a money supply target is equal to one-half the averaging period. If an immediate move to the target level or growth rate should be too disturbing to money rates, a still longer target period would have to be allowed for in shifting from an interest rate to a money supply target.

Power to Control Money Supply

These perplexities arise, of course, from the premise that most central banks start with a short-run interest target. Pursuit of this target compels them to destabilize the money supply. Because they do not know what the "true" money supply is under these conditions, they do not know how to modify it in order to reach the target. A central bank totally indifferent to interest rate fluctuations and bent solely on controlling the money supply would know, or so it would seem, exactly by how much to change it every week or month to be always on target. It thus could control the money supply perfectly—if it could control it at all.

On that score, however, there is considerable doubt. The frequently made assumption that the central bank can control the money supply is at odds with some important facts. These facts are familiar and can be stated very briefly.

The liabilities created by the central bank can become commercial bank reserves supporting demand deposits, but they can also be be absorbed into currency, commercial bank excess reserves, and reserves supporting time deposits. Of these, the leakage through time deposits has been particularly important in recent United States experience.[17] If time deposits are close substitutes for securities, central bank expansion that pushes down interest rates on securities will lead to the creation of time deposits, thus limiting creation of

[17] Lesser elements that recently have become important by absorbing or releasing reserves are changes in government deposits and shifts of deposits between American banks and their foreign branches. A shift of deposits to foreign branches, i.e., the creation of a Eurodollar deposit, liberates reserves, because head office liabilities to branches are not subject to reserve requirements.