

effects produced by changes in expectations. Progress and growth can lead, and have led, to destabilizing movements in demand. Furthermore, there is no obvious force in the economy which would prevent these movements from becoming explosive in either direction.

Monetary factors may, of course, interact with these other changes. If there are changes in the rate or level of spending, and the money supply cannot adjust, changes will be produced in interest rates, bond prices, and wealth. These changes will react in turn upon future expenditures. Those who stress non-monetary causes of instability believe that purely monetary reactions arising from a stable money supply will be too slow, and perhaps too weak, to offset the instability arising from non-monetary causes. Velocities will shift; interest rates alter; desires for liquidity will change. Because monetary influences are felt with a lag, immediate market reactions to non-monetary developments can increase rather than offset instability.

Market Imperfections May Raise the Costs of Monetary Movements

Another matter the money-supply theory appears to neglect (or assume away) is the problem of sectoral adjustments to monetary changes. It is well established that monetary changes have a differing impact on sectors of the economy. Yet the theory assumes that shifts in demand as a result of changes in interest rates or in the availability of credit will either be smooth or not excessively inefficient. In contrast, the money-income-expenditure approach points out the degree to which laws, rules,