

view can perhaps be characterized somewhat as follows: The behavior of the rate of change of the money supply is the overriding determinant of fluctuations in business activity. Government spending, taxing policies, fluctuations in the rate of technological innovation, and similar matters have a relatively small or even negligible influence on the short-run course of business activity. Hence, to the extent that it can control the money supply, a central bank, such as the Federal Reserve System, can control ups and downs in business activity. The influence of money on business operates with a long lag, however, and the timing of the influence is highly variable and unpredictable. Thus attempts to moderate fluctuations in business activity by varying the rate of growth of the money supply are likely to have an uncertain effect after an uncertain lag. They may even backfire, producing the very instability they are designed to cure. Consequently, the best policy for a central bank to follow is to maintain a steady rate of growth in the money supply, year in and year out, at a rate which corresponds roughly to the growth in the economy's productive capacity.

The implications of these views are obviously both highly important and strongly at variance with widely held beliefs. Thus they deny the direct importance of fiscal policy (except perhaps in so far as it may influence monetary policy), while they attribute to monetary policy a virtually determining role as regards business fluctuations. At the same time, they deny the usefulness of discretionary, countercyclical monetary policy. The issues involved are highly complex and cannot possibly be adequately treated in their entirety in a single article.² The present article, therefore, confines itself to examining the historical relationship between monetary cycles and cycles in general business. The article concludes that the relationship between these two kinds of cycles does not, in fact, provide any real support for the view that the behavior of money is the predominant determinant of fluctuations in business activity. Moreover, the historical relationship between cycles in money and in business cannot be used to demonstrate that monetary policy is, in its effects, so long delayed and so uncertain as to be an unsatisfactory countercyclical weapon.

The first section shows how proponents of the money supply view have measured cycles in money and exam-

² Among the many interesting and relevant issues not discussed are the advantages and disadvantages of the money supply as an immediate target of monetary policy or as an indicator of the effects of policy, the proper definition of the money supply, and the nature and stability of the demand for money.