

ines the persistent tendency of turning points in monetary cycles, so measured, to lead turning points in general business activity. It argues that these leads do not necessarily point to a predominant causal influence of money on business. A second section suggests that the cyclical relationship of money and business activity may be as much a reflection of a reverse influence of business on money as it is of a direct causal influence running from money to business. A third section indicates why, for some periods at least, the tendency for cycles in money to lead cycles in business may reflect nothing more than the impact on money of a countercyclical monetary policy. Next, the relative amplitudes of monetary contractions and their associated business contractions are examined. Again it is argued that these relative amplitudes fail to provide any clear evidence for a predominant causal influence of money. A fifth section examines the timing of turning points in money and in business for evidence that the influence of money operates with so long and variable a lag as to make countercyclical monetary policy ineffective. A final section suggests that there may well be better ways to evaluate the causal influence of money on business than through the examination of past cyclical patterns.

CYCLES IN MONEY AND CYCLES IN BUSINESS ACTIVITY

As already implied, proponents of the money supply school have argued that the historical relationship between cycles in money and cycles in general business activity provides major support for their views on the causal importance of money in the business cycle. For the most part, these economists have delineated cycles in the money supply in terms of peaks and troughs in the percentage rate of change of money (usually including time deposits), while cycles in business have been defined in terms of peaks and troughs in the *level* of business activity as marked off, for instance, by the so-called "reference cycles" of the National Bureau of Economic Research (NBER).³

³ See, for example, Milton Friedman and Anna J. Schwartz, "Money and Business Cycles", *Review of Economics and Statistics* (February 1963, supplement), pages 34-38. While the procedure of these economists in comparing percentage rates of growth of money with levels of business activity can certainly be defended, it is by no means obvious that this is the most appropriate approach, and there are many possible alternatives. Thus, for example, cycles in the rate of growth of money could be compared with cycles in the rate of growth, rather than the level, of business activity. For some purposes the choice among these alternatives makes a considerable difference, as is noted later in connection with measuring the length of the lags of business-cycle turning points relative to turning points in the monetary cycle.