They have argued that virtually without exception every cycle in the level of business activity over the past century of United States experience can be associated with a cycle in the rate of growth of the money supply. The exceptions that are observed occurred during and just after World War II—although the events of 1966-67 may also be interpreted as an exception, since an apparent cyclical decline in monetary growth was not followed by a recession but only by a very brief slowdown in the rate of business expansion.[4] The money supply school also finds that cycles in business activity have lagged behind the corresponding cycles in the rate of growth of the money supply, with business peaks and troughs thus following peaks and troughs in the rate of monetary change.

While the evidence supporting these generalizations is derived from about a century of United States data, the nature of the measurements and some of the problems of interpretation can be illustrated from the postwar experience represented in Chart I. The chart shows monthly percentage changes in the money supply, defined here to include currency in the hands of the public plus commercial bank private demand and time deposits, on a seasonally adjusted daily average basis.[5] The shaded areas represent periods of business recession as determined by the NBER. The first point to note is the highly erratic nature of month-to-month movements in the rate of change of the money supply. Indeed, the reader might be excused if he found it difficult to see any clear-cut cyclical pattern in the chart. The erratic nature of the money series, which partly reflects short-run shifts of deposits between Treasury and private accounts, does make the precise dating of peaks and troughs in the money series somewhat arbitrary. This introduces a corresponding degree of arbitrari-

[4] Granting the difficulties of dating specific cycle turning points for series as erratic as the rate of growth of the money supply, a peak (for the definition of money that includes time deposits) seems to have occurred in October 1965, with a trough in October 1966. While there was a slowdown in the rate of growth of business activity in the first half of 1967, there was clearly no business cycle peak corresponding to the peak in the money series. Indeed, the current dollar value of GNP moved ahead in the first two quarters of 1967, although at a reduced rate. The 1965-66 decline in the rate of growth in the money supply was relatively short (twelve months). In amplitude it was clearly among the milder declines, but it was nevertheless still nearly twice as steep as the mildest of past contractions in the rate of monetary growth (November 1951 to September 1953). In any case, the 1965-66 decline does appear to represent a specific cycle contraction for the rate of monetary change under the standard NBER definition. See Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (National Bureau of Economic Research, 1946), pages 55-66.

[5] While, as noted, many analysts would prefer to define the money supply to exclude commercial bank time deposits, such an exclusion would not materially affect the general picture, at least not for the period illustrated by the chart.