there is an important reverse influence exerted by the business cycle on the monetary cycle itself.

THE INFLUENCE OF BUSINESS ON MONEY

Although the persistent tendency of cycles in monetary growth rates to lead business activity does not, as noted, necessarily imply a predominant causal influence of money on business, this tendency has nevertheless seemed to the money supply economists to be highly suggestive of such an influence. Certainly the consistency with which these leads show up in cycle after cycle is rather striking and does suggest that cycles in money and cycles in business are related by some mechanism, however loose and unreliable. Nevertheless, it is important to recognize that this mechanism need not consist entirely or even mainly of a causal influence of money on business. It might, instead, reflect principally a causal influence of business on money, or it could reflect a complex relationship of mutual interaction. As noted earlier, virtually all economists believe that there is, in fact, at least *some* causal influence of money on business, and it may be that this influence alone is enough to explain the existence of some degree of consistency, albeit a loose one, in the timing relationships of peaks and troughs in business and money. However, the existence of a powerful reverse influence of the business cycle itself on the monetary cycle would have important implications. By helping to explain the timing relationships of the money and business cycles, the existence of such an influence would certainly tend to question severely any presumption that these timing relationships are themselves evidence for money as the predominant cause of business cycles.

There are, in fact, a number of important ways in which changing business conditions can affect, and apparently have affected, the rate of growth of the money supply over the 100 years or so covered by the available data. First, the state of business influences decisions by the monetary authorities to supply reserves and to take other actions likely to affect the money supply—as is discussed in detail in the next section. Business conditions can also have a direct impact on the money supply, however. For example, they may affect the balance of payments and the size of gold imports or exports. These gold movements, in turn, may affect the size of the monetary base—the sum of currency in the hands of the public and reserves in the banking system. Various official policies have tended to reduce or