

influence it exerts via monetary policy. The relevance of monetary policy to the behavior of monetary growth during the business cycle was perhaps especially clear during the period beginning around 1952 and extending to the very early 1960's. In this period, policy was more or less able to concentrate on the requirements of stabilizing the business cycle relatively (but not entirely) unimpeded by considerations of war finance, the balance of payments, and possible strains on particular sectors of the capital markets. The ultimate aim of stabilizing the business cycle is, of course, to prevent or moderate recessions and to forestall or limit inflation and structural imbalances during periods of advance. The tools available to the Federal Reserve, however, such as open market operations and discount rate policy, influence employment and the price level only through complex and indirect routes. Hence, in the short run, policy must be formulated in terms of variables which respond more directly to the influence of the System. Some possibilities include, in addition to the rate of growth of the money supply, the growth of bank credit, conditions in the money market and the behavior of short-term interest rates, and the marginal reserve position of banks as measured, for example, by the level of free reserves or of member bank borrowings from the Federal Reserve. It is clear that the money supply need not always be the immediate objective of monetary policy, and indeed it was not by any means always such during the 1950's. Given this fact, the behavior of the rate of growth of the money supply during the period cannot be assumed to be simply and directly the result of monetary policy decisions alone.

Nevertheless, it is clear that the current and prospective behavior of business strongly influenced monetary policy decisions, given the primary aim of moderating the cycle, and that these decisions, in turn, influenced the behavior of the rate of growth of the money supply. Thus, for example, as recoveries proceeded and threatened to generate inflationary pressures, monetary policy tightened to counteract these pressures. Regardless of what particular variable the System sought to control—whether the money supply itself, conditions in the money market, or bank marginal reserve positions—the movement of any of these variables in the direction of tightening would, taken by itself, tend to exert a slowing influence on the rate of monetary expansion. In this way, the firming of monetary policy in the presence of cumulating expansionary forces would no doubt help to explain the tendency of the rate of monetary