

of business activity tend to lag behind peaks and troughs in the rate of change of the money supply—in particular the fact that these lags have tended to be quite long on average and highly variable from one cycle to another. Thus long average lags of about sixteen months for peaks and twelve months for troughs have suggested to these economists that the impact of monetary policy is correspondingly delayed, with actions taken to moderate a boom, for example, having their primary impact during the subsequent recession when precisely the opposite influence is needed. Moreover, the great variability from cycle to cycle of the lags as measured by the money supply school has suggested that the timing of the impact of monetary policy is similarly variable and unpredictable. For this reason, they argue, it will be impossible for the monetary authorities to gauge when their policy actions will take effect and therefore whether these actions will turn out to have been appropriate.

It is true, of course, that monetary policy affects the economy with a lag. The full effects of open market purchases on bank deposits and credit, for example, require time to work themselves out. More important, additional time must elapse before businessmen and consumers adjust their spending plans to the resulting changes in the financial environment. For this reason, the pattern of spending at any given time will to some degree reflect the influence of financial conditions as they existed several months or quarters earlier. Hence it is certainly possible, for example, that some of the effects of a restrictive monetary policy could continue to be felt during a recession even though the current posture of monetary policy were quite expansionary.

The fact that such lags do exist, however, shows only that monetary policy cannot be expected to produce immediate results. Like fiscal policy, its effectiveness depends in part on the ability to anticipate business trends so that policy actions taken today will be appropriate to tomorrow's conditions. Of course the longer the lags in the effects of policy prove to be, the further out in time must such anticipations be carried and the greater is the risk that policy actions will prove to be inappropriate. Moreover, if the lengths of the lags are highly variable and thus perhaps unpredictable, the risks of inappropriate policy decisions are obviously increased and the need for continuous adjustments in policy is apt to arise.

The timing of cycles in money and cycles in business, however, provides absolutely no basis for believing that the lags in the effects of monetary policy are so long or