

IIMR conference, 12 November 2025

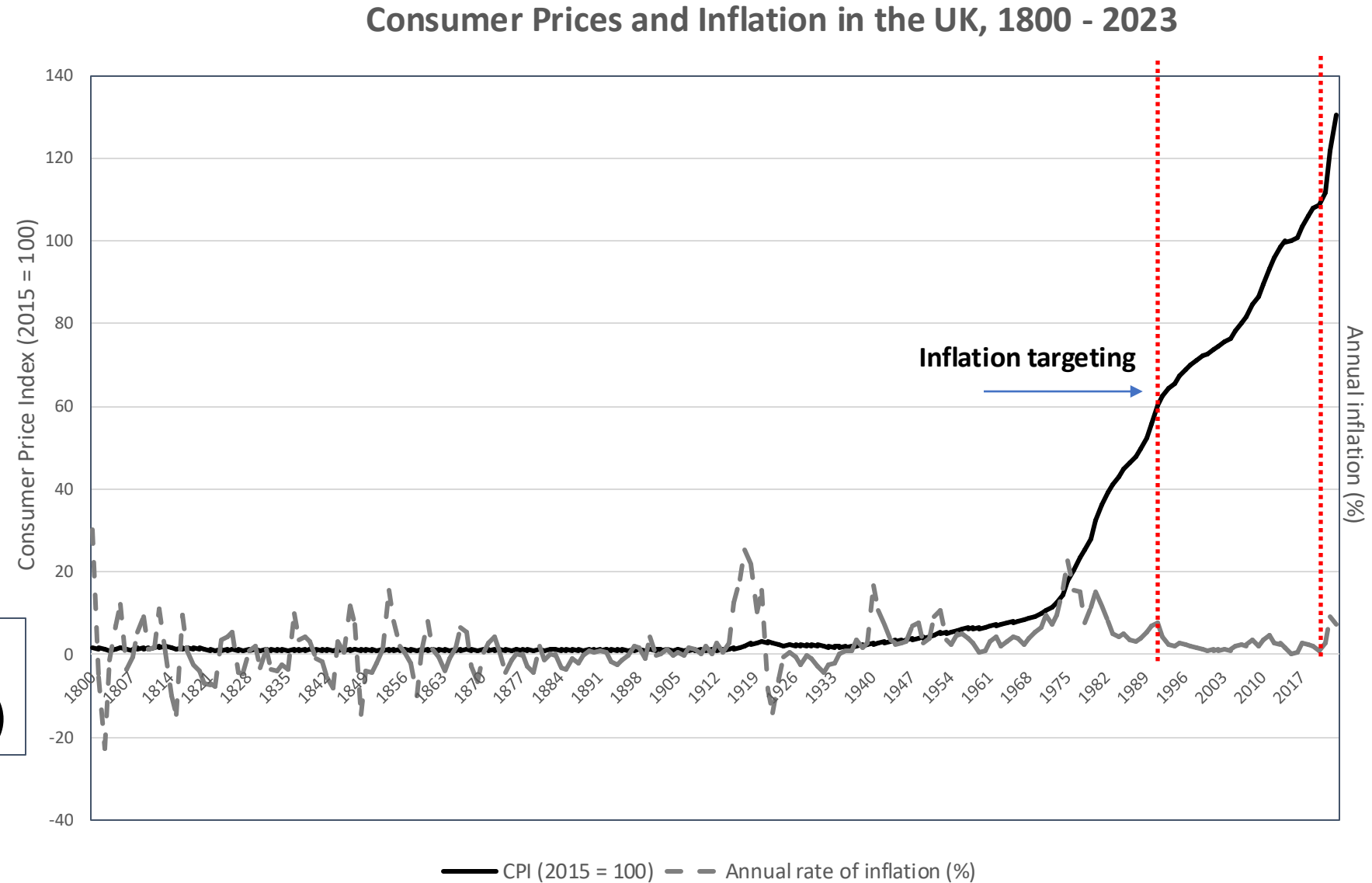
# Money and inflation during Covid 19: truly, a very monetary experiment

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# The context: an inflationary drift since 1913

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In search of a new anchor:  
**inflation targeting (1992 - )**

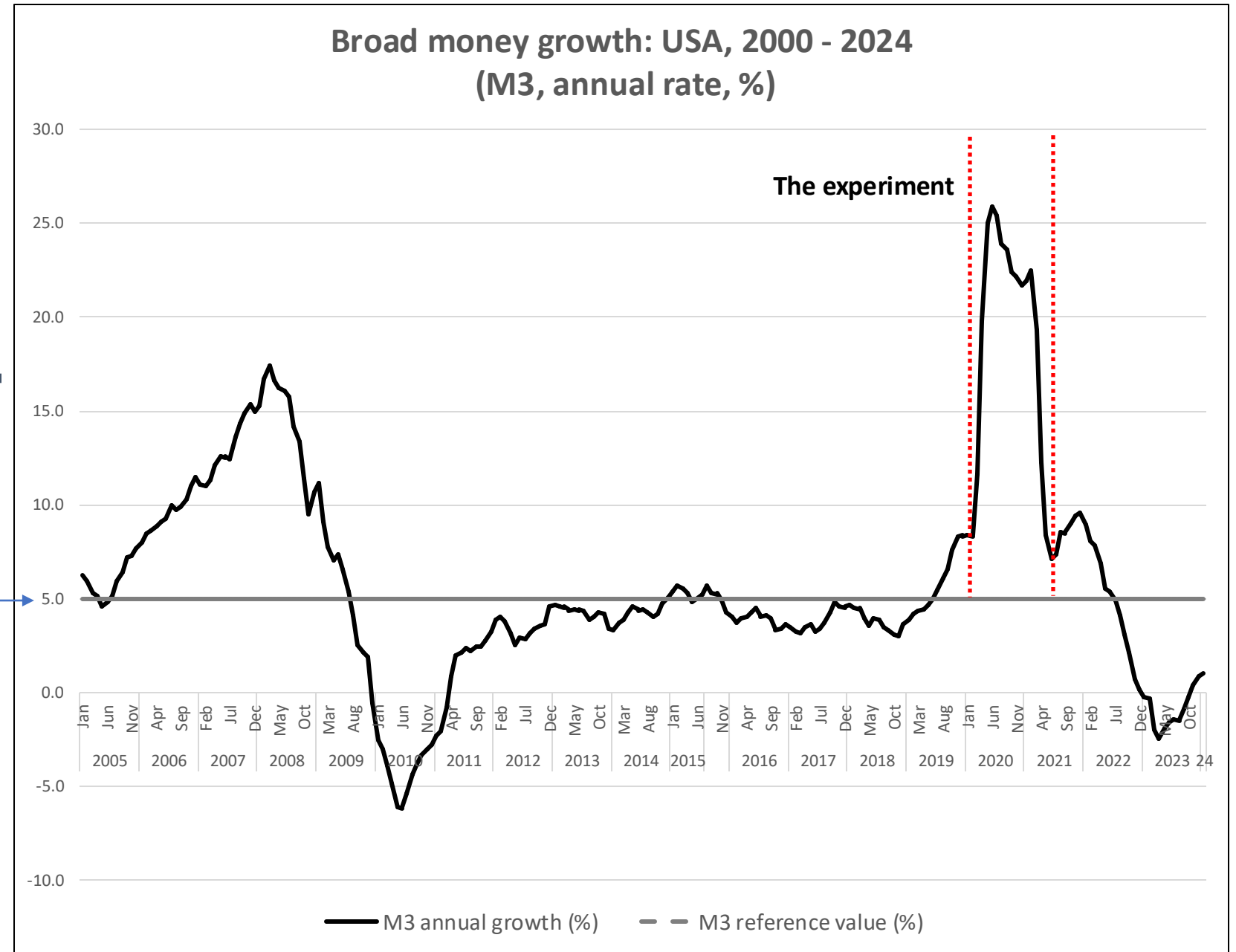


# The problem: monetary instability

M3 growth around 5% pa compatible  
with 2% inflation target

## The experiment:

Could a 25% increase in M3 be  
'neutral'?



# What we observed back in 2020

**Table 1: Average of rate of growth of broad money (M3) and Nominal GDP in the USA, 1960-2019**

	% annual growth rate	
	M3	Nominal GDP
1960 – 2018	7.4	6.5
1960 – 1970	7.7	6.8
1971 – 1980	11.4	10.3
1981 – 1990	7.7	7.7
1991 - 2000	5.6	5.6
2001 - 2010	7.1	3.9
Eight years to 2018	4.0	4.0

Source: IIMR May 2020 Money Update. See: <https://mv-pt.org/monthly-monetary-update/>

$$\%M + \%V = \%GDP_{\text{real}} + \%P$$

If the *quantity theory of money*, then in the medium term (1-2 years) ...

**Table 3: Expected annual growth rates of the quantity of money, in late 2020 and early 2021**

USA	22½% - 27½%
Eurozone	7½% - 12½%
Japan	4½% - 7%
UK	7½% - 15%

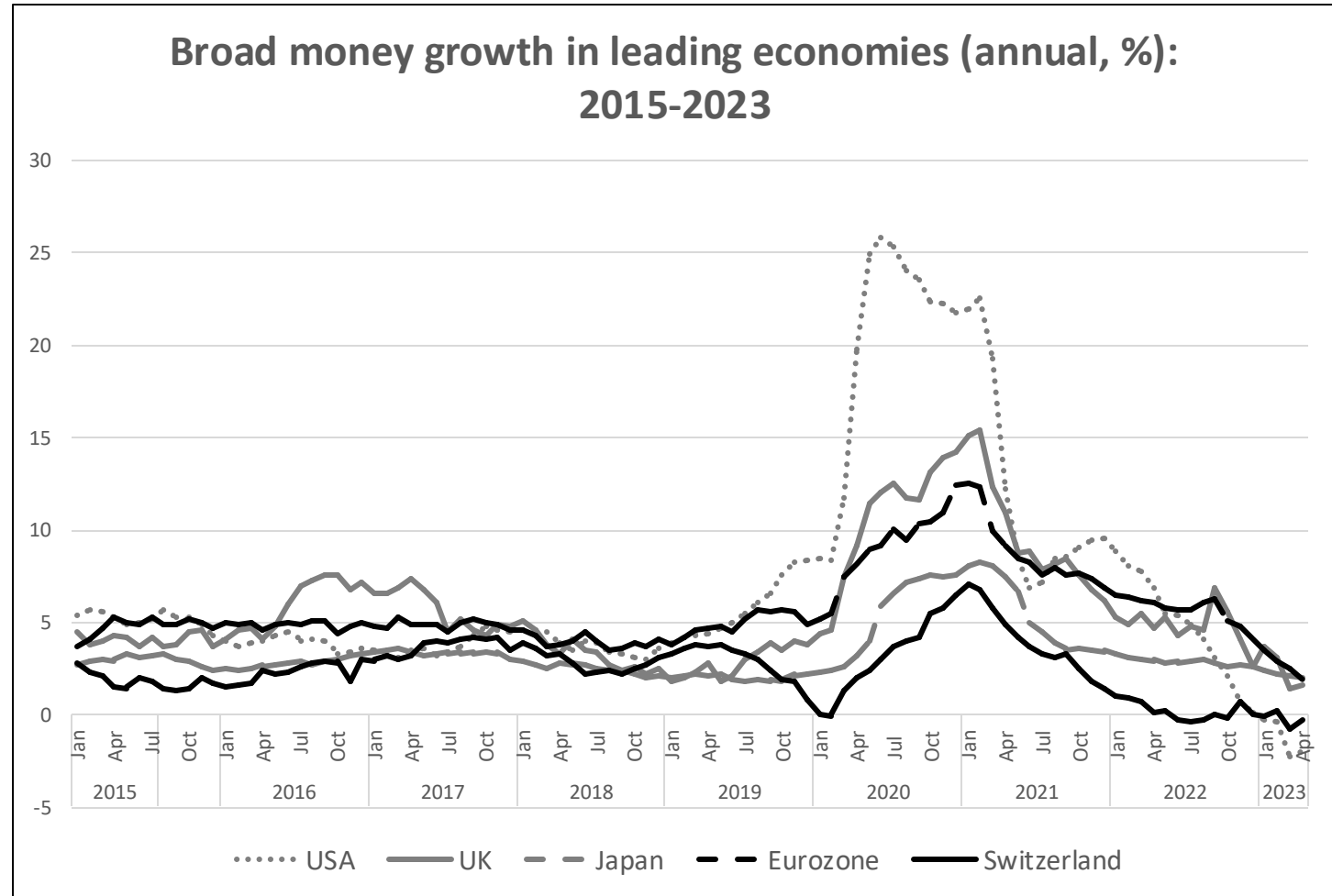
Source: IIMR, May 2020 Money Update.

Castaneda, Congdon (2020): 'Inflation; the next threat?' IEA paper  
(with data available until April-May 2020)

# A monetary surge in 2020-21: but not world-wide

## How could this monetary surge be neutral?

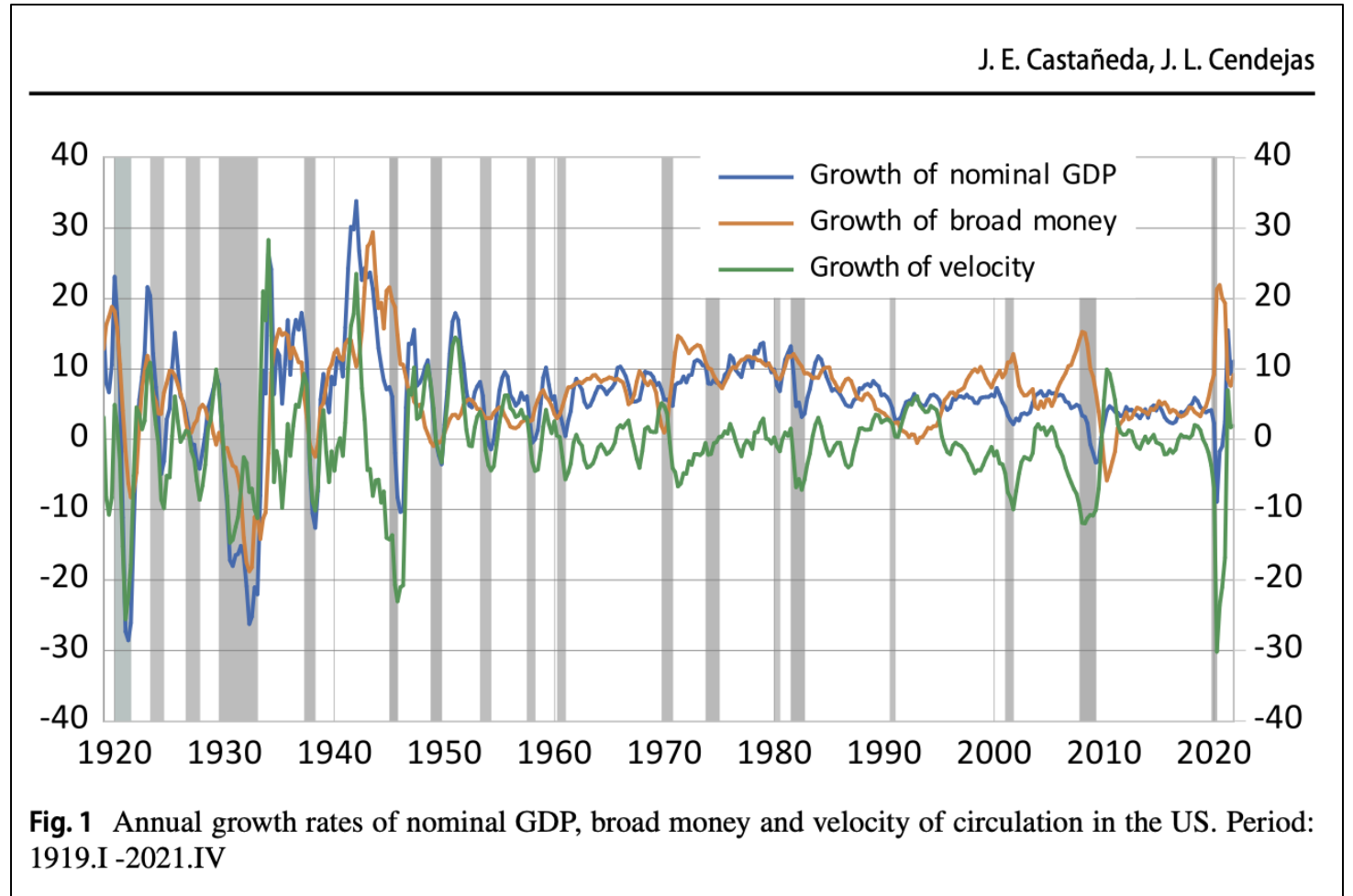
- Only if money is not considered in forecasting models
- Or if accompanied by a permanent increase in the demand for money (i.e. a permanent fall in 'V')



Castaneda (2025): 'Unfettered Money'. In *Government and Economic Growth in the 21<sup>st</sup> Century*

# Monetary trends in the long term

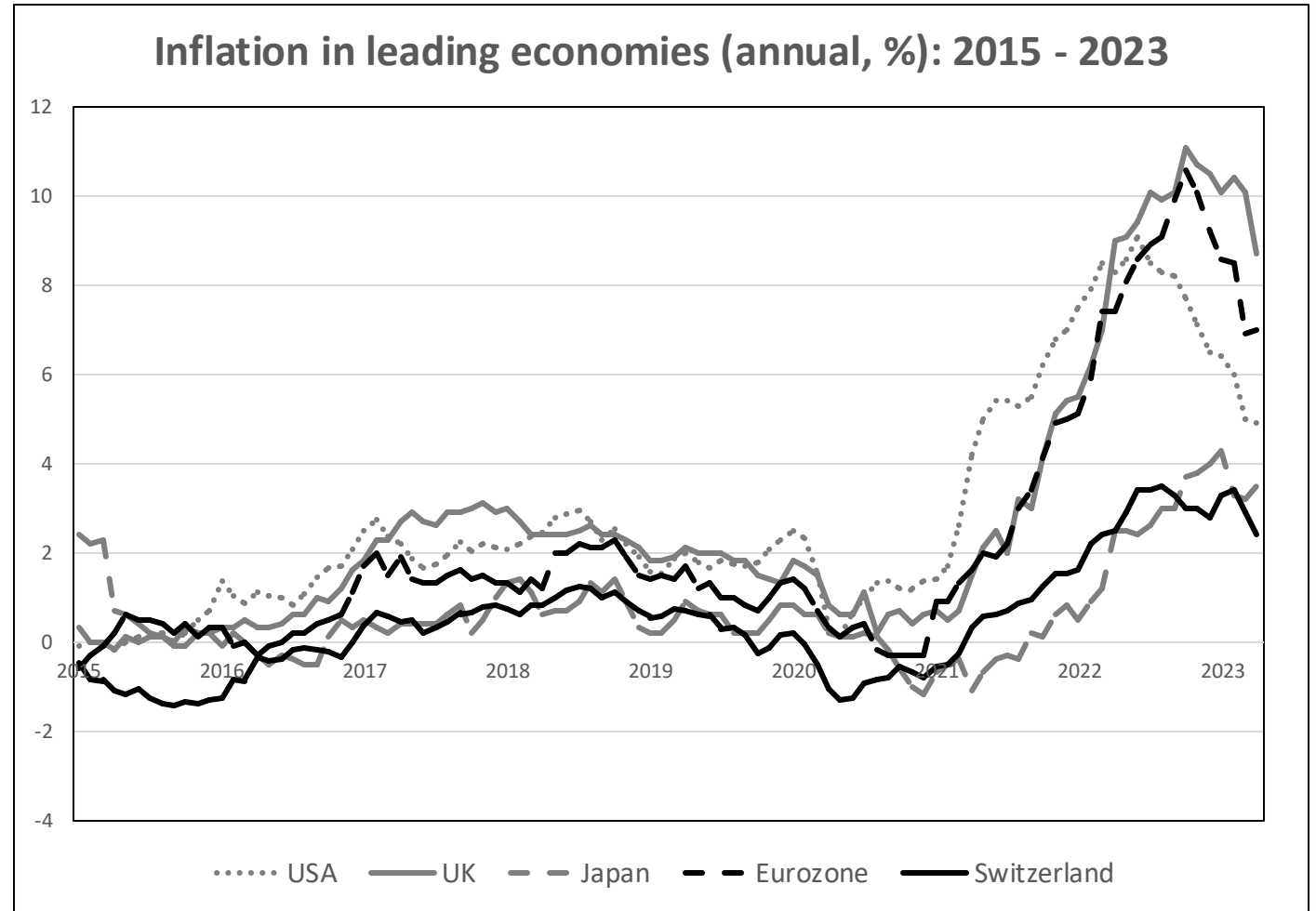
- But the demand for money is not infinite
- Changes in money velocity eventually return to the mean



Castaneda, Cendejas (2023): 'Money Growth, Money Velocity and Inflation in the US, 1948–2021'.  
In *Open Economies Review*

# The outcome: a surge in inflation in 1-2 years

- Much greater inflation in 2023 in the economies where broad money expanded the most in 2020-21
- See what happened in Switzerland and Japan



# The experiment: policy conclusions

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- The ‘what’s going on here?’ (M. King) question:

*First*, the misuse of models. Models are neither right nor wrong; they are more or less useful. They are not descriptions of the world, which is why economic forecasts are often so poor. They can generate extremely valuable insights. But they are not a substitute for trying to figure out what is happening in the large world. John Kay and I recommend always asking the question ‘what is going on here?’ At first sight this may seem trivial, but it is in fact immensely helpful in interpreting economic data.

- We should incorporate monetary trends in our forecasting models of inflation
- The return to monetary policies with money

**Monetary stability as a key anchor to produce price stability  
over the medium term**