Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Unbearable Lightness Of Printing Big Banknotes

There used to be a frequently repeated anecdote in Turkey. Although it might have been perceived as a joke, it actually contained a serious truth. It described the differences between Americans, Germans, and Turks.

You could replace Turks with any of the Balkan countries, Latin America, or MENA countries in this triplet, and it would still fit perfectly. However, since I am Turkish, I will continue with the example of Turkey.

If you ask, "What do Americans fear?" I can answer immediately: "Recession." Millions of people have lost their jobs during various crises, big and small, since the Great Depression, and they have sold whatever they had for a pittance. For this reason, Americans live with the anxiety of “tomorrow.” They are not concerned with inflation. They focus on growth rates and employment.

If you ask, “What do Germans fear?” I can answer that immediately as well: “Inflation.” Just two years before the establishment of the Republic, our current friends, the Greeks, were running after them from the Sakarya River to İzmir while Germany was experiencing hyperinflation.

Money was printed every hour, and the “reichmark” was literally becoming worthless against the American dollar. At one point, 1 dollar equaled 4 trillion 300 billion reichmarks.

We had a banknote that we kept as a souvenir at home, which was marked “50 Milliarden.” Later, I learned that with a cart, you could buy bread with just that amount. Germans have feared inflation then and now, and they perceive expansions in the money supply as a “threat.”

“So, what do Turks fear?” Of course, “nothing.” Because the Turkish people have no memory or reflex related to any economic crisis, neither in their minds nor in their genes. They have forgotten. They do not remember. The same situation occurs in Latin America. They have not missed any crises, but they do not remember.

Printing large banknotes is not the cause of high inflation

In our countries, citizens fear only one thing: that someone else will buy the goods they have set their eyes on. They cannot stand this, and it makes them very upset. They might even harm others for it. In countries like ours, this is what a crisis looks like.

Economic administrations tasked with combating high inflation believe, based on the German example, that printing large banknotes will create inflation. In fact, there are contemporary examples like the Zimbabwe Dollar that contribute to this fear. However, printing large banknotes is not the cause of high inflation; it is the result.

Furthermore, Switzerland, Singapore, and the Eurozone possibly have the largest banknotes but do not suffer from inflation as much as developing countries.

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In short, having to print large banknotes in developing countries indicates a failing administration in reducing inflation, which is why economic administrations try to avoid it.

It is also possible to argue that avoiding the printing of large banknotes helps with currency control. Because when the national currency is printed in large denominations, it becomes easier to buy foreign currency in cash.

This is because it is easier to carry. For example, it is easier to carry wealth with 1,000 Swiss francs or 500 euros. However, one must first withdraw the national currency from the bank to achieve this goal. Now, I will explain how not printing large banknotes ensures currency control by outlining the experience in Turkey.

A medium-sized suitcase

If a business owner in Turkey wants to get 100,000 dollars, here's what happens: Due to the pressure of economic management, they want to do this in the free market because of the bank rate being 1 TL higher than normal.

For this, they will need to withdraw TL from the bank, take it to a currency exchange, convert it to dollars, and then put it back in the bank.

Therefore, to withdraw about 3.5 million TL, if they are lucky, they will be given bundles of the highest denomination, which is 200 TL. They will have to put this into a medium-sized suitcase.

While carrying such a large amount of money to a waiting car outside, they might even need to ride with an armed guard

If there are bundles of 100 TL, the situation gets even worse. While carrying such a large amount of money to a waiting car outside, they might even need to ride with an armed guard.

They will go to the currency exchange, where all 175 bundles will be counted one by one before they are handed over 10 bundles of 100 dollars. In other words, they will come with a suitcase and leave with a medium bag.

They will return to the bank and deposit it into their account. This process will take at least about 2 hours.

The significance of the largest banknote

Now, let's consider that the same operation is performed for 1 million dollars, moreover for 10 million dollars.

These transactions, which require an enormous amount of time and pose security risks, certainly discourage people from engaging in foreign exchange trading. In fact, they make it nearly impossible.

From all these details, it is clear that not only out of fear of inflation but also as a consequence of wrong decisions, the restriction on printing banknotes higher than 200 TL, as well as the open foreign exchange trading margins at banks, has been a deliberate strategy to prevent people from converting their national currency to dollars or euros.

I wrote this article to draw the attention of the economic administrations of all countries that are resisting the printing of larger denominations as the significance of the largest banknote in the national currency diminishes - Emre Alkin

However, if these transactions were conducted with reasonable buying and selling margins at banks without harming importers or exporters, there would be no need for such juggling acts.

Yet, since economic administrations are themselves pursuing juggling acts, they force the public into these dangerous practices. I wrote this article to draw the attention of the economic administrations of all countries that are resisting the printing of larger denominations as the significance of the largest banknote in the national currency diminishes.

I once saw a statement on the back of a truck that said, “My late father always liked to overtake.” In summary, by the time one realizes that things are wrong, it is often too late.