Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Can Digital Currency Solve Grey Economy?

In some countries, due to extremely high inflation, the largest banknote printed has become meaningless, putting central banks under public pressure.

Some say, "Big banknotes create inflation," while economists like me argue that "there's no relation, but it could be an admission of the existence of high inflation."

Meanwhile, there are countries like Switzerland that have the world's most valuable and largest banknotes, with inflation at low levels.

I personally believe that paper money creates grey economy and facilitates the financing of crimes. Therefore, I argue that the central banks' issuance of more currency is useless and even harmful for two reasons:

- The amount of electronic money produced by banks far exceeds the amount of printed money, and the existence of paper money gives people the false impression that they can withdraw electronic money from banks at any time. If only 25% of depositors globally tried to withdraw their money from banks, chaos would ensue.

- When money is printed, it becomes possible to fund governments in circuitous ways, inflation increases, the unrecorded economy continues to grow, and criminal proceeds can be easily laundered. Meanwhile, unrecorded transactions in activities such as agriculture remain untracked, making it impossible to follow up on these transactions.

The unrecorded nature of agriculture

Countries trying to industrialize often neglect agriculture; however, this sector plays a key role in significant parameters, including core inflation.

The unrecorded nature of agriculture can lead to various negative side effects from both economic and social perspectives. Let’s look at some of the side effects of unrecorded transactions in the agricultural sector:

1. Tax Loss: Unrecorded activities cause losses in government tax revenues. Since transactions in the agricultural sector are not recorded, it is impossible to tax the income generated in this area.

2. Unfair Competition: Those working unrecorded can usually offer products at lower costs. This weakens the competitive power of farmers operating legally and paying taxes.

3. Loss of Social Security Rights: Unregistered employment leads agricultural workers to be deprived of rights such as social security, retirement, and healthcare. This negatively affects the quality of life for individuals working in agriculture.

4. Legal Issues: Unrecorded work is usually carried out under conditions of low oversight and insecurity. This can lead to an increase in disputes and legal problems among farmers.

5. Quality Issues: Unrecorded agriculture may often neglect quality standards. This jeopardizes the safety and quality of products, thereby affecting consumer health.

6. Financing Difficulties: Due to unrecorded activities, access to official funding sources, credit opportunities, and support programs becomes difficult. In this case, farmers may be unable to make the necessary investments.

7. Market Exclusion: Unrecorded producers cannot become part of official markets or certification processes, directing them to less reliable markets with illegal or low-quality products.

8. Lack of Innovation in the Agricultural Sector: Unrecorded activities can hinder the adoption of innovative technologies and methods. Farmers operating within a legal framework are more open to innovative solutions.

9. Environmental Issues: The unrecorded

nature of agriculture can lead to the neglect of environmental regulations, resulting in overuse of natural resources and environmental degradation.

10. Social Distrust: The unrecorded economy reinforces issues such as social injustice and inequality, creating distrust and unrest within society.

In summary, the unrecorded nature of the agricultural sector leads to significant problems both economically and socially. When I defended my PhD thesis in 1996, I spoke about the need for an instrument that resembles money but is "trackable" to eliminate unrecorded activities in agriculture. Of course, there were no smartphones at that time; cell phones only had a keypad to send SMS alongside "yes" and "no" buttons.

Entering the 21st century, the world has seen a myriad of applications, from banking to entertainment, through smartphones. Today, people can complete many transactions without using cash, relying on smart devices. Even though I am from Generation X, I use a ring connected to my credit card for payments. Now, let's return to the main issue:

The unrecorded nature created by cash

The use of cash can lead to various issues related to grey economies and financial transactions. Let's examine some causes and effects of the unrecorded nature created by cash:

1. Lack of Traceability: Cash operates as a physical entity, making it easy to conduct untraceable transactions. This creates a foundation for tax evasion, money laundering, and other illegal activities.

2. Undocumented Labor: Cash payments can encourage unrecorded employment. Employers can avoid maintaining official records by paying employees in cash, jeopardizing workers' social security rights.

3. Tax Evasion: Cash payments make it difficult for tax authorities to track and oversee incomes. Individuals or businesses may use cash transactions to reduce or hide declared income.

4. Shadow Economy: Cash can lead to the growth of informal sectors. For example, activities such as the trade of illegal products or the informal provision of services can be easily conducted with cash payments.

5. Financial Audit Challenges: The prevalence of cash transactions can reduce the effectiveness of financial audits. The absence of official records makes financial analysis difficult, which can lead to economic instabilities.

6. Security Risks: The carrying and use of cash also create a fertile ground for crimes such as theft and fraud. This situation threatens the security of individuals and businesses.

The traceability of financial transactions increases

For these reasons, many countries are promoting digital payment systems and card payments to reduce cash usage and encourage a registered economy. This way, the traceability of financial transactions increases, and the fight against the informal economy can be strengthened.

Perhaps this is why many Central Banks avoid printing larger banknotes despite high inflation. As money is printed, informality increases, leading to various issues from income inequality to the rising cost of living.

There are concerns that printing larger banknotes will not solve these problems but rather exacerbate them.

Of course, the complete elimination of cash might solve some problems, but it could also lead to various challenges and negative effects. Let's discuss it point by point:

1. Tax Evasion and Informality: Cash is a tool for tax evasion and the informal economy. The elimination of cash could make transactions more transparent, potentially reducing tax losses and helping to control the informal economy.

2. Money Laundering: Reducing cash usage can make it harder to launder illegal income. Digital payments increase the traceability of transactions, making it easier for legal authorities to conduct oversight.

3. Decrease in Crime Rates: Crimes such as theft and fraud associated with carrying cash may decrease as cash usage declines. The use of digital payments can enhance security.

4. Financial Inclusion: Encouraging digital payment systems can improve access to banking services. The complete elimination of cash might enable more people to enter the official banking system.

5. Increased Transaction Speed: Digital payments allow for faster and more efficient transactions compared to cash. This can save time and costs for both consumers and businesses.

6. Decreased Costs: The processes of printing, transporting, storing, and managing cash are costly. Eliminating cash could reduce these costs.

The complete removal of cash could create some issues

These are the expected positive developments resulting from the elimination of cash. However, it is also anticipated that the complete removal of cash could create some issues:

· Digital Inequality: Not everyone may have access to digital payments. Especially the elderly, low-income individuals, or those with limited access to technology could find themselves disadvantaged as cash disappears.

· Privacy and Security Concerns: In digital payments, user data and transactions can be tracked. This situation may lead to privacy violations and cybersecurity risks.

· System Failures or Interruptions: Digital payment systems may experience disruptions due to technical problems or cyberattacks. Such situations could prevent transactions from being executed.

In conclusion, while it is clear that the complete elimination of cash offers significant advantages, it is important that this transition be managed carefully, considering possible negative effects.

When the cash era ends, the primary substitute will be digital currency - a universe composed of balances in our accounts or limits on our credit cards that do not require us to touch anything - Emre Alkin

Of course, when the cash era ends, the primary substitute will be digital currency. By this, I mean a universe composed of balances in our accounts or limits on our credit cards that do not require us to touch anything.

The benefits and the negatives

It must also be acknowledged that no solution offers a perfect design. While the widespread use of digital currency has the potential to solve various economic and social problems, it could also create problems. Let's first look at the benefits:

1. Traceability and Transparency: Digital currencies allow for easy tracking and recording of transactions. This can help

increase data transparency and reduce tax evasion and the informal economy.

2. Speed and Efficiency: Transactions made with digital currencies occur faster and at lower costs compared to cash transactions. This provides a significant advantage, especially for cross-border payments.

3. Low Transaction Costs: The use of digital currencies can reduce transaction costs, particularly in international money transfers. They can offer lower fees compared to traditional banking systems.

4. Security: Digital currency systems typically use cryptography to ensure security. This can reduce the likelihood of crimes such as fraud.

5. Economic Efficiency: Digital currencies can decrease the costs associated with the printing, transporting, and managing of cash. Additionally, the widespread use of digital payments can make money management more efficient.

6. Global Access: Digital currencies can eliminate geographical limitations, allowing everyone around the world to access the economy more easily.

7. Micro Payments: The low transaction costs provided by digital currencies facilitate micro payments. This enables the development of innovative business models in areas such as digital content services or in-app purchases.

8. Encouraging Innovation: The use of digital currencies can encourage the development of new financial technologies (fintech) and services, thereby fostering greater competition and innovation in the sector.

Now let's look at the negatives. Digital currencies can pose risks of modern slavery and financial exploitation in some cases. Additionally, there are concerns that digital currencies could enable governments to easily control their citizens.

In fact, I can say that if cryptocurrencies evolve and enter our lives during the process of eliminating cash, this fear might diminish somewhat.

Ultimately, it all boils down to the same question: "Will Central Banks exist in the future?" I can easily say "no". Now, it's your turn to answer.