



Iran's Bizarre Dilemma: Hyperinflation and a Currency Shortage

Anders Åslund explains how countries cope with hyperinflation and a currency shortage: Vodka, cigarettes, and other commodities become the new ersatz currency.

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Steve Weisman: Iran is getting so squeezed by sanctions that it is experiencing, among other things, hyperinflation. But there's a new report that the companies that make the Iranian currency, the rial, have stopped doing so because of the sanctions. How does a country cope with hyperinflation if it doesn't have enough currency to circulate? Anders Åslund, senior fellow at the Peterson Institute for International Economics, has studied this very conundrum in many other countries. This is Steve Weisman.

Anders, how does a country cope in a situation like that?

Anders Åslund: Basically, you stop using cash if you have real hyperinflation that is more than 50 percent. What happens is best illustrated with a simple anecdote. If inflation is high and a thief steals a bag of money -- of course they use bags rather than a wallet. If it's high inflation, the thief takes the cash and leaves the bag. If it's hyperinflation, the thief takes the bag and leaves the cash.

Steve Weisman: Iran is experiencing hyperinflation of between 50 and 100 percent. What do Iranians do?

Anders Åslund: This I don't know. If you take Russia, in '92 for example, you have two alternative currencies apart from the U.S. dollar. That was ½ liter bottles of vodka and packs of Marlboro. So if I took a taxi in Moscow in '92, although I never smoked, I carried the Marlboro packages and gave one package of Marlboro. Of course, it's very cheap when you have hyperinflation, because the real prices become very depressed. What also happened in Russia in '92 was that you had various local rubles being issued, because in one way or the other, you needed to pay. It was the same in Germany during the big hyperinflation 1924, when about 2,000 local currencies were being issued. Of course, they are of low quality, but with a rather good copying machine, you can come up with all kinds of fun currencies.

Steve Weisman: I was going to say that the U.S. Confederacy, during the Civil War did that. But will banks do this, or stores, or...?

Anders Åslund: The fundamental thing is that money is not cash. Cash is M2-M3, which is bank money. So what happened in the former Soviet Union, was that the authorities held back the production of cash, because they thought that they could stop inflation in that fashion. But they could not. Ersatz money was printed instead and what really matters is the bank money, the bank credit.

Steve Weisman: Some economists were quoted in the New York Times as saying that this could be a good thing for Iran because they could combat hyperinflation. But you are saying that there's no way of getting rid of this hyperinflation.

Anders Åslund: Yes, or bank money. You can issue however much electronic money you want, you have no physical limits to that. What really matters is what you have in cash, in printed money in hand. So essentially in every hyperinflation, you get a massive shortage of cash and that does not stop high inflation.

Steve Weisman: Is this the first case of that caused by sanctions rather than mismanagement of economic policies?

Anders Åslund: If you take the former Soviet Union, by and large these countries did not have the money to pay for the cash so that they could buy it abroad and it could never be delivered in time, because they were really bankrupt and then you can't pay. In any hyperinflation it's impossible to print sufficiently large denominations sufficiently fast.

Steve Weisman: Just as a mechanical question, you may not be able to answer this, but it seems that there were three major European companies that produce this. Why don't the Iranians make their own money?

Anders Åslund: By and large, you have the one big company that produces all these currencies and that's De La Rue of Britain, which is all dominant in this market. I was surprised to see the other two companies, because the De La Rue is close to a monopoly in this area. Most big countries produce their own currencies. And it's only when small and new countries use outside services, so this is quite surprising that Iran is a country that does not do it itself.

Steve Weisman: Thank you, Anders.

