

SAE./No.244/November 2023

Studies in Applied Economics

**DOWN WITH THE OBJECTIONS TO
DOLLARIZATION — THEY ARE EITHER
WRONG OR IRRELEVANT**

Steve H. Hanke

Johns Hopkins Institute for Applied Economics,
Global Health, and the Study of Business Enterprise



Down With the Objections to Dollarization – They Are Either Wrong or Irrelevant

Steve H. Hanke

About the Series

The Studies in Applied Economics series is under the general direction of Prof. Steve H. Hanke, Founder and Co-Director of the Johns Hopkins Institute for Applied Economics, Global Health and the Study of Business Enterprise (hanke@jhu.edu). The authors are mainly students at The Johns Hopkins University in Baltimore. The views are those of the authors alone.

About the Author

Steve H. Hanke is a Professor of Applied Economics and Founder and Co-Director of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise at The Johns Hopkins University in Baltimore. He is also a Senior Fellow at the Independent Institute in Oakland, California, a Senior Adviser at the Renmin University of China's International Monetary Research Institute in Beijing, and a Special Counselor to the Center for Financial Stability in New York. Hanke is also a Contributing Editor at Central Banking in London and a Contributor at National Review. In addition, Hanke is a member of the Charter Council of the Society for Economic Measurement and a Distinguished Associate of the International Atlantic Economic Society. He is ranked as the world's third-most influential economics influencer by FocusEconomics in Barcelona, Spain.

In the past, Prof. Hanke taught economics at the Colorado School of Mines and at the University of California, Berkeley. He served on President Reagan's Council of Economic Advisers, has been a Senior Adviser to the Joint Economic Committee of the U.S. Congress, has been an adviser to five foreign heads of state and five foreign cabinet ministers, and served as a State Counselor in both Lithuania and Montenegro. Hanke played an important role in establishing new currency regimes in Argentina, Estonia, Bulgaria, Bosnia-Herzegovina, Ecuador, Lithuania, and Montenegro. He has also held senior appointments in the governments of many other countries, including Albania, Kazakhstan, the United Arab Emirates, and Yugoslavia.

Prof. Hanke has been awarded seven honorary doctorate degrees and is an honorary professor at four foreign institutions. In 1998, he was named one of the twenty-five most influential people in the world by *World Trade Magazine*. In 2020, Hanke was named a Knight of the Order of the Flag.

Prof. Hanke is a well-known currency and commodity trader. Currently, he serves as Chairman of the Supervisory Board of Advanced Metallurgical Group N.V. in Amsterdam and Chairman Emeritus of the Friedberg Mercantile Group Inc. in Toronto. During the 1990s, he served as President of Toronto Trust Argentina in Buenos Aires, the world's best-performing emerging market mutual fund in 1995.

Prof. Hanke's most recent book, which he co-authored with Jonas Herby and Lars Jonung, is *Did Lockdowns Work? The Verdict on Covid Restrictions*, which was published by the Institute of Economic Affairs in London in 2023.

Hanke and his wife, Liliane, reside in Baltimore and Paris.

Acknowledgements

The author wishes to thank his longtime (for now close to 35 years) trusted colleague and collaborator Kurt Schuler for his reliable comments and advice.

Keywords: dollarization, full dollarization, official dollarization, inflation, Argentina

Preface

Dollarization is on the agenda in Argentina, again. Presidential candidate Javier Milei has proposed to mothball the Banco Central de la Republica Argentina (BCRA) and the peso and put them in a museum. And why not? After all, Argentina has suffered one currency crisis after another since the BCRA was founded in 1935. And with the currency uphevals, there have been banking crises, recessions, debt defaults, and impoverishment.

But the disastrous BCRA-peso record has not stopped its defenders from trotting out one half-baked idea after another in a vain attempt to discredit dollarization.

Before I address the objections to dollarization, allow me to make a few brief prefatory remarks that relate to my involvement in Argentina and how they are associated with the current dollarization debate.

- 1989 – (Menem) Mrs. Hanke and I first met President Carlos Menem in 1989 and advised him on economic and geopolitical matters throughout his presidency (1989-1999).
- 1989 – (Menem) President Menem suggested that I write a book in which I laid out my ideas about how to crush Argentina’s triple-digit inflation and create a stable peso. I immediately began to work with my colleague Kurt Schuler on what was a blueprint for an orthodox currency board. While drafting the blueprint, I worked closely with Congressman Jose Maria Ibarbia and his colleagues (the so-called Alsogaray faction) in the Argentine Congress. The blueprint was finished and circulated in 1990 and in early 1991, the Hanke-Schuler currency board blueprint was published as a book by the Fundacion Republica in Buenos Aires: *Banco Central o Caja de Conversion*. Schuler and I were pleased to have Jose Maria Ibarbia write a preface for our book, and to have the Alsogaray faction’s support.
- 1991 – (Convertibility) To stop a triple-digit inflation, Argentina eventually introduced a Convertibility system in April 1991. Convertibility stopped inflation in its tracks and laid the foundation for an economic boom. Convertibility had certain features that made it superficially look like a currency board: (a) a fixed exchange rate, (b) full convertibility, and under most circumstances (c) a minimum reserve cover for the peso of 100% of its anchor currency, the U.S. dollar. However, it had two major features that disqualified it from being an orthodox currency board and rendered Convertibility a pegged exchange rate arrangement. It had no ceiling on the amount of foreign assets held at the central bank relative to the central bank’s monetary liabilities. So, the central bank could engage in sterilization and neutralization activities, which it did. In addition, it could hold and alter the level of domestic assets on its balance sheet. So, Argentina’s monetary authority could engage in discretionary monetary policy, and it did so aggressively.

- 1991 – (The BCRA & Convertibility) Shortly after the introduction of Convertibility, I wrote an op-ed in the Wall Street Journal (October 25, 1991). Its Title, “Argentina Should Abolish its Central Bank,” says it all. I argued that Convertibility would eventually blow up because it was not an orthodox currency board and it was housed at the BCRA. For me, the solution was to get rid of the BCRA and convert the Convertibility system to an orthodox currency board.
- 1995 – (TTA) I served as President of Toronto Trust Argentina in Buenos Aires – the world’s best-performing emerging market mutual fund – and was intimately involved in the markets.
- 1995 – (Cavallo) In the midst of the Tequila Crisis, I became the Advisor to Minister of Economy Domingo Cavallo. I spent most of my time in public explaining how Convertibility worked. In private, I continued to advocate the abolition of the BCRA and the adoption of currency board orthodoxy or perhaps official dollarization.
- 1998 – (Menem) As Convertibility started to show signs of trouble in 1998, Menem again called me in for advice. I counseled that the only way to ensure that there was no monetary meddling in Argentina was to mothball the BCRA and peso, put them in a museum, and adopt the U.S. dollar. Again, Menem requested that I present him with a draft law on dollarization. This I did in collaboration with Kurt Schuler. We published “A Dollarization Blueprint for Argentina” in *Friedberg’s Commodity and Currency Comments Experts’ Report*, February 1, 1999. Shortly thereafter, I presented our dollarization blueprint to a meeting of the Argentine Bankers Association in Buenos Aires. The assembled bankers liked the idea, but unfortunately the government failed to dollarize. As they say, the rest is history.
- 1999 – (“Dollarization” Montenegro) I served as a State Counselor and chief adviser to President Milo Djukanovic in Montenegro, where I developed a plan to replace the Yugoslav dinar with the German mark (*Cronogorska Marka*). This we did in December 1999.
- 2001 – (Dollarization Ecuador) I became the advisor to Minister of Economy and Finance Carlos Julio Emanuel and assisted in the replacement of the sucre with the U.S. dollar.
- 2023 – (Argentina’s Dollarization Debate) Although I have been involved in the current dollarization debate in Argentina, I am not connected with the presidential campaign of Javier Milei.

Introduction

Inflation is Argentina's biggest current problem. It is causing economic instability and widespread poverty. Argentina is in recession at a time when the rest of the world is growing, including most of its major trading partners. By my measure, inflation has soared to 239 percent per year (as of November 9, 2023). Attempts to prevent the exchange rate from reflecting the full extent of inflation have distorted Argentina's trade with the rest of the world, leading to shortages of goods and lost production. The Argentine peso is so little trusted that Argentines already conduct transactions in U.S. dollars when they can. These transactions are beneficial to all parties involved and conducive to economic growth and social order even though many of them are illegal simply for occurring in dollars. Argentina has one of the world's highest levels of unofficial dollarization.

And yet, the idea of fully, officially dollarizing Argentina and eliminating the peso has received vigorous criticism from scores of Argentine and other economists, politicians, pundits, and other observers.¹ They are so ideologically committed to central banking that they cannot acknowledge that Argentina's current monetary system, run by the BCRA, is a disaster, with no prospect of reform soon.

In many previous writings, I and others have addressed various objections to full dollarization in Argentina and elsewhere.² I am one of the few economists with experience as an official adviser on dollarization, having been involved in establishing it in Montenegro in 1999 and in implementing it in Ecuador in 2001. Because many misconceptions about dollarization persist, I have collected the most common objections to dollarization and refutations of them for convenient reference in this short paper.

Again, I am not connected with the campaign of Javier Milei to be president of Argentina. The views here, especially the ideas about potential policies to implement dollarization, may differ from those of Milei and his advisers. A sufficiently rapid deterioration of the peso may force full dollarization no matter what the winner of the presidential election wants, affecting how dollarization is implemented.

Some objections overlap. I have retained them to be able to offer different nuances in the replies.

Objection 1: Argentina lacks enough dollars to dollarize.

Reply: Even valuing pesos at the unrealistic official rate, Argentines hold more than twice as much in foreign currency as in pesos. Argentina has more than enough dollars to dollarize.

¹ Hanke and Ocampo (2023) lists and links to a number of the most prominent critics.

² Wang (2023) lists scholarly writings both favorable toward and critical of full dollarization. For some of my writings, scholarly and popular, see the References.

People keep most of their dollars outside of the banking system because they are rightfully afraid that the government might confiscate dollars in the banking system.

Details: The [latest data](#) at this writing show the broadest measure of peso currency and peso bank deposits, M3, as nearly 42 trillion pesos, roughly US\$120 billion at the unrealistic official wholesale rate of 350 per dollar or about \$46 billion at a more realistic “blue” (parallel market) rate of 900 pesos per dollar. Additionally, Argentines hold almost US\$17 billion in foreign currency deposits. (To provide a sense of scale about these figures, the International Monetary Fund estimates that Argentina’s gross domestic product will be approximately [US\\$622 billion](#) this year.)

These figures are dwarfed by the dollars that Argentines hold under the mattress and in foreign bank accounts, estimated at nearly [US\\$265 billion](#) as of the latest data. This amount appears in official statistics of Argentina’s international investment position under the vague term “other investment.” [Data](#) by the U.S. Federal Reserve System imply that Argentina is the largest foreign holder of dollar cash.

Objection 2: Dollarization would have to occur at an exchange rate much higher (more depreciated) than even the current parallel market rate to bail out the central bank.

Reply: This objection is perhaps the most common misconception about dollarization. It rests on the assumption that the central bank is the most important factor in the market for buying and selling pesos against dollars. The whole balance sheet of the central bank is less than the estimated amount of Argentine holdings of foreign currency, to say nothing of the dollars that foreign investors might bring into Argentina if they had confidence in Argentina’s prospects. If dollarization were to happen at a market-determined rate today, the likely exchange rate would be somewhere between the artificially low official wholesale rate of 350 pesos per dollar and the unnecessarily high parallel market rate of about 900 pesos per dollar, which is kept high by the illegality of the transactions. The market-clearing exchange rate would not be 3,000 pesos per dollar or other such fantastically high rates based on ignoring that the foreign exchange market is much broader than just the central bank. Of course, if Argentina delays dollarization, the exchange rate will almost certainly reach such high rates eventually as inflation continues.

Details: The whole balance sheet of the central bank is about [65 trillion pesos](#), equal to US\$186 billion at the official wholesale rate or \$73 billion at 900 pesos per dollar. The central bank’s foreign reserve assets are nearly [US\\$22 billion](#), but it also has so much in foreign liabilities that observers estimate its net foreign reserves (foreign assets minus foreign liabilities) as negative. Even so, the central bank has substantial domestic assets. See the next objection for more.

Objection 3: What about the LELIQs, a time bomb in the central bank balance sheet?

Reply: Dollarization offers the best chance of defusing the time bomb. Without it, the problem of LELIQs will continue to get worse. Emilio Ocampo, building an idea he proposed in his book about dollarizing Argentina (Ocampo and Cachanosky 2023), has devised a plan to unlock the

value that dollarization would bring to certain assets of the central bank. The details will depend on the situation at the time of dollarization, but the underlying concept of restructuring finances to take advantage of a more stable, favorable investment climate is a familiar one in both private and government finance. After dollarization, interest rates will of course fall substantially, including on LELIQs.

Details: LELIQs (*letras de liquididad*, liquidity bills) are 28-day securities issued by the central bank. They amount to nearly [23 trillion pesos](#), far more than the monetary base of 7 trillion pesos. They currently pay interest of 133%. Because the central bank is supposed to convert them into the monetary base when they come due, if the holders of LELIQs wish, there is a danger of a mass conversion that would quadruple the monetary base and result in a true hyperinflation.

Objection 4. A dollarized monetary system has no body to act as a lender of last resort to banks.

Reply: Partly correct. A dollarized system does not have a central bank that can create money at will to rescue failing banks or other institutions. A dollarized system does, however, have access to international financial markets, which contain vast amounts of investment available to firms that are temporarily illiquid but that have good longer-term prospects. Panama's highly open financial system provides an example. In general, banking crises have been [rare](#) in dollarized systems.

Objection 5. Dollarization will not solve the problems of the banking system, which is small for the size of the economy and does not promote economic growth to any great extent.

Reply: In fact, the example of Ecuador suggests that dollarization will go far toward making the banking system an agent of growth. When Ecuador dollarized in January 2000, the banking system had been in crisis for almost a year. Deposits were frozen. The confidence that dollarization created encouraged Ecuadorians to deposit funds in the banks. The illiquid banking system regained liquidity. Dollarization enabled banks to make loans for much longer periods at much lower nominal rates of interest than they had been able to do previously.

Details: The ratio of bank deposits to GDP in [Ecuador](#) peaked at nearly 21% in 1996, then plummeted to 9% with the banking crisis of 1999, which was a reaction to the steep fall in the price of oil, Ecuador's major export, in 1997 and 1998, plus some economic mismanagement. In 2000, the first year of dollarization, the ratio rebounded to almost 19%, and it has generally continued climbing, reaching 46% in 2020. In contrast, in [Argentina](#), the ratio peaked at about 27% in 2000 and has never attained that level since.

Objection 6. Dollarization involves preconditions that Argentina lacks, especially in government finance.

Reply: The experience of other dollarized countries has been that dollarization does not require preconditions. Apparently, no country that has wanted to dollarize has ever been unable to do so because it lacked sufficient foreign currency, or a balanced budget, or other characteristics. Critics are misled by a false analogy with central banking. Under central banking, it is extremely important for the government budget to be in or close to balance. Otherwise, the government will demand that the central bank create money to finance deficits, and the central bank will be unable to say no. Under dollarization, there is no domestic central bank to finance deficits. Consequently, dollarization forces the government to make its finances more sustainable.

Objection 7. Dollarization will not fix Argentina’s government budget, the underlying cause of its economic problems. The important thing is the budget, not the currency.

Reply: Dollarization imposes what economists term a hard budget constraint. The government can only spend as much as it raises in revenue plus what participants in financial markets are willing to lend to it. Central banking involves what economists term a soft budget constraint. The government can spend more than its revenue plus its borrowing in financial markets because the central bank can fund it, possibly creating inflation to do so. By eliminating the central bank, dollarization creates far more incentive to fix the budget than would be the case under central banking.

Details: Ecuador’s leftist president Rafael Correa (2007-2017) intensely disliked dollarization. Ecuador retained the Banco Central del Ecuador as a banking and regulatory institution even though it ceased issuing notes and only issued coins. The continued existence of the institution allowed Correa to take advantage of or create loopholes that partly undermined the discipline of dollarization, such as by requiring banks to hold certain reserves at the Banco Central del Ecuador that were partly backed by government bonds rather than by foreign reserves. For Argentina, I recommend eliminating the BCRA and delegating its functions to other institutions or eliminating them.

Objection 8. Discretionary monetary policy is superior to dollarization.

Reply: Let’s ignore the many theoretical arguments on this subject and proceed straight to the empirical record. The record of central banking and other forms of discretionary monetary policy is a record of failure. The U.S. dollar is the same currency unit it was two centuries ago, though admittedly it has less purchasing power. The current peso is worth 250 trillion pesos of two centuries ago. This fantastic result is the consequence of how many times Argentine governments have cut off zeros to make calculation simpler. Since the end of the Convertibility system, the peso has depreciated from 1 per dollar to about 900. This is among the worst long-term performances in the world. In the same period, no dollarized country has depreciated by even a hair against the U.S. dollar, or whatever other foreign currency it has used. Central banking has been a source of instability rather than stability in Argentina’s economy.

Objection 9. Dollarization would make the exchange rate too rigid to offset unfavorable shocks to Argentina's economy.

Reply: Argentina's central bank has been the biggest source of unfavorable shocks to the economy for most of the period since it was established in 1935. Eliminating it would reduce the frequency of unfavorable shocks originating from huge gyrations in monetary policy. Argentina does have a longstanding problem with economic rigidity, but attempts to address it through more flexible exchange rates have failed to promote the growth necessary to keep pace with other peer economies. Tackling rigidities in Argentina's economy, especially in labor markets, will be difficult, but the potential rewards are substantial.

Objection 10. Argentina is too big for dollarization.

Reply: The principles of dollarization do not change appreciably with the scale of the country. Before Ecuador dollarized in 2000, the largest independent dollarized country was Panama. Ecuador had more than four times as many people as Panama and a GDP in current dollars more than 50% larger than Panama. Even so, the principles of operation were the same. Note also that the economies of the euro area formed a unified currency zone in 1999 in which all member countries share the same currency and monetary policy. Germany, France, Italy, and Spain are all larger than Argentina both in population and especially in GDP.

Objection 11. Argentina's economic cycles differ from those of the United States, so tying them through dollarization would be harmful.

Reply: Since 2000, the United States has had three recessions, totaling 28 months. Argentina has had eight recessions, including the current one, totaling 30 quarters (90 months, counting similarly to the way U.S. recessions are counted). It would help Argentina grow if it could converge toward the U.S. frequency of recessions. Moreover, the objection presumes that a central bank could moderate Argentina's business cycles in ways that in practice it has not been able to do.

Details: The private [National Bureau of Economic Research](#) (NBER) is the unofficial but authoritative arbiter of business cycles in the United States. It designates recessions as having occurred from March-November 2001, December 2007-June 2009, and February-April 2020. (The previous recession before these was in the early 1990s.) The number of months per recession is one less than the number of months listed, so February-April 2020 was a recession that was two months in length. In Argentina, the government's [Instituto Nacional de Estadística y Censos \(INDEC\)](#) calculates GDP figures. It lists year-over-year shrinkage of the economy in these quarters: 2000Q1-2002Q4 (this recession actually began in 1998Q4), 2008Q4-2009Q3, 2012Q2-Q3, 2013Q4-2014Q4, 2016Q2-Q4, 2018Q2-2019Q1, 2019Q3-2020Q4, 2023Q2-present. For each recession, by analogy with the NBER's procedure, I count the number of quarters per recession as one less than the number of quarters listed.

Objection 12. Dollarization will not be credible and the peso will return.

Reply: Ecuador has been dollarized for nearly 24 years, its longest-lasting monetary regime in its history as an independent country. Like Argentina today, it was suffering a grave crisis before it dollarized. Dollarization has been bumpy at times, but less so than a national currency was. Dollarization has been so popular that the leftist president Rafael Correa, who hated it, was unable to reverse it during his ten years in office (2007-2017) despite his personal popularity. In Argentina's more than 200 years of independence, it has tried almost every monetary system other than dollarization. If dollarization is tried and doesn't last, then we can say that Argentina is truly hopeless in monetary matters. But why not try dollarization, given its good record elsewhere?

Details: [Zimbabwe](#) dollarized in 2009, then de-dollarized in 2014 when the rapacious Zimbabwe African National Union - Patriotic Front (ZANU-PF) political party returned to power under its autocratic leader, Robert Mugabe. Dollarization had ended Zimbabwe's hyperinflation and restored economic growth, but Zimbabwe de-dollarized because the government wanted to exercise greater control over the lives of citizens. Despite the many problems Argentina has had, its experience with military rule seems to have inoculated it against Mugabe-style autocrats.

Objection 13. Dollarization would repeat the disastrous experience of the convertibility system (Argentina's monetary system from April 1991 to early January 2002, in which the peso was linked at one-to-one with the dollar, and which ended in a big financial crisis).

Reply: Full dollarization differs from the convertibility system in not having a domestic currency (except perhaps coins for small change, as Panama and Ecuador do). Consequently, dollarization lacks the loopholes that were contained in the Convertibility law and that contributed to Convertibility's demise. Because of those loopholes, Argentina's money supply was managed under the discretion of the BCRA and did not work the way it would have under an orthodox currency board, or under dollarization – two systems that do not allow for monetary discretion. The dollarized system of Ecuador has now lasted twice as long as Argentina's convertibility system did, without anything resembling a currency crisis.

Details: From near the beginning of the Convertibility system, I warned that it was not an orthodox currency board and that its unorthodox features were likely to create trouble for it. My first warning was in 1991, just months after the system began (Hanke 1991). I repeated my warning many times over the life of the system.³ In early 1999, almost three years before the convertibility system collapsed in crisis, I advocated dollarizing Argentina as a way to avoid the simmering problems of the system and offered a detailed proposal of how to achieve dollarization (Hanke and Schuler 1999a). Later in 1999 I advised the government of Montenegro on its successful "dollarization" — actually a switch from the inflating Yugoslav dinar to the German mark, later succeeded by the euro. Like Ecuador, Montenegro has suffered nothing resembling a currency crisis.

³ Strezewski (2020: 114-122) lists my writings on the convertibility system and on currency boards during the period.

Objection 14. Ecuador has grown more slowly since dollarization than before dollarization.

Reply: Actually, [no](#). From 1980-1999 (before dollarization), Ecuador's real GDP growth averaged 2.4% a year. From 2000-2022 (since dollarization) it averaged 2.9% a year. Not super fast, but an improvement. Consider also that Panama under dollarization has become one of the wealthiest Latin American countries.

Details: Ecuador unwisely elected the leftist Rafael Correa as president from 2007 to 2017. Correa greatly expanded the burden of government. Government revenue [rose](#) from 20-25% of GDP to 35-40%. The private sector has had to carry a much fatter government as weight on its back. Even so, growth has been faster. We will see if the incoming government of Daniel Noboa can introduce policies to accelerate growth.

Objection 15. The dollar is not the best currency for dollarization; the euro or even the Brazilian real would be better.

Reply: The dollar is by far the most widely used foreign currency in Argentina. People have already demonstrated that they prefer it. The law implementing dollarization should also permit Argentines to make contracts in any mutually agreeable currency, as is the case in El Salvador, so that people can use euros or reals if they wish and can easily switch out of the dollar if another currency becomes more appropriate in the future.

Objection 16. Dollarization will cost seigniorage (the profit from issuing currency).

Reply: Seigniorage is a profit to the central bank and the government, but inflation at the high levels Argentina is currently suffering is a tax on the Argentine people. The cost of economic instability created by the peso far outweighs the government's profits generated from seigniorage.

Details: A simple way of measuring seigniorage is the increase in the monetary base, expressed as a share of GDP. The latest GDP [figures](#) currently are from the first two quarters of 2023. Annualized GDP rose from 104 trillion pesos in the fourth quarter of 2022 to 159 trillion pesos in the second quarter of 2023. (These are nominal figures, whose increase is the result of inflation. In real, inflation-adjusted terms, GDP was lower in the first two quarters of 2023 than in the first two quarters of 2022.) The [monetary base](#) rose from 5.2 trillion pesos at the end of 2022 to 5.9 trillion pesos at the end of the first half of 2023. This is an increase of 0.7 trillion pesos, or 1.3% of nominal GDP. Note, though, that the ratio of the monetary base to GDP was 5.0% at the end of 2022 but fell to 3.7% at the end of the first half of 2023. Such a rapid fall is a sign that the public is trying to minimize its holdings of the monetary base, and that seigniorage is coming from high inflation, not from satisfying a genuine demand by the public to hold higher real amounts of the monetary base.

Objection 17. Dollarization involves a loss of sovereignty.

Reply: There are different senses of sovereignty that are often in conflict. National sovereignty is the ability of the government of a country to decide matters of policy as it wishes, without foreign coercion. It does not mean that a government lacks all constraints: governments often make agreements with other countries to restrict the freedom of all for the benefit of all, such as agreeing to keep tariffs low so that their people can benefit. [Consumer sovereignty](#) is the ability of free individuals to choose how to use resources. In economies that restrict freedom, for instance through exchange controls, national sovereignty clashes with consumer sovereignty. It is crucial not to confuse the decisions of a few politicians with the will of the people. By their extensive use of the dollar, Argentines have shown that for them, consumer sovereignty is best served by dollarization.

Objection 18. Dollarization is too complex to implement.

Reply: Although there are many details to determine, the experience of other dollarized countries shows that dollarization is feasible. Argentina is larger, more populous, and wealthier than Ecuador, which makes it more politically complex, but the economic principles are the same. There seems to be no case of a country attempting dollarization but failing to implement it because of technical complexity.

Details: In January 2000, Ecuador’s president Jamil Mahuad Witt announced dollarization as a last, desperate measure to avoid resigning, his likely fate given his rock-bottom popularity in political polls. He had no well-defined plan for implementing it. Fortunately, the announcement of dollarization, at an exchange rate of 25,000 Ecuadorian sucres per dollar, immediately stabilized the monetary system. It bought the government time to create a framework for implementation. With advice from outside groups that had thought about implementation, Ecuador’s legislature passed a law a little more than two months later. The law, dubbed the *trolleybus* (in English one would say “omnibus”), addressed not only some aspects of dollarization itself that needed legal resolution, but wider economic reforms to help Ecuador recover from its recession and financial crisis.

* * * *

Other objections can be made. This paper has, however, covered the major ones, and some of the minor ones. Remember that dollarization is no purely theoretical idea. It already works well in more than 30 jurisdictions today, including Panama, Ecuador, and El Salvador among Latin American countries. None of them worry about triple-digit inflation or interest rates, the impossibility of trusting the local currency, or exchange controls. All enjoy monetary stability, which Argentina can also enjoy if it fully dollarizes.

References

- Bogetić, Željko and Steve H. Hanke. 1999. *Cronogorska Marka*. Podgorica, Montenegro: Antena M.
- Dolarización en Argentina (blog by Nicolás Cachanosky and Emilio Ocampo). <https://dolarizacionargentina.substack.com/>
- Hanke, Steve H. 1991. "Argentina Should Abolish Its Central Bank." *Wall Street Journal*, October 25: A15.
- Hanke, Steve H. 2002. "On Dollarization and Currency Boards: Error and Deception." *Journal of Policy Reform* 5 (4): 203–222.
- Hanke, Steve H. 2003. "Money and the Rule of Law in Ecuador." *Journal of Policy Reform* 6 (3): 131–45.
- Hanke, Steve H. 2018. "Dollarization" In Robert W. Kolb, editor, *The Sage Encyclopedia of Business Ethics and Society*: 962-964. Thousand Oaks, California: Sage Publications.
- Hanke, Steve H. 2019. "Remembrances from Montenegro's Momentous Currency Reform: The 1999 Adoption of the German Mark." Studies in Applied Economics Working Paper Series No. 135, Johns Hopkins Institute for Applied Economics, Global Health, and Study of Business Enterprise.
- Hanke, Steve H. 2023. "Historical Episodes of Full Dollarization." Studies in Applied Economics Working Paper Series No. 242, Johns Hopkins Institute for Applied Economics, Global Health, and Study of Business Enterprise.
- Hanke, Steve H., and John G. Greenwood. 2023. "The Dollar, Not the IMF, Can Save Argentina." *Wall Street Journal*, September 26.
- Hanke, Steve H., and Emilio Ocampo. 2023. "It's Time to Dump the Peso and Dollarize Argentina." *National Review Online*, October 18. <https://www.nationalreview.com/2023/10/its-time-to-dump-the-peso-and-dollarize-argentina/>
- Hanke, Steve H., and Kurt Schuler. 1991. *Banco Central o Caja de Conversion?*. Buenos Aires: Fundacion Republica, 1991.
- Hanke, Steve H., and Kurt Schuler. 1999a. "A Dollarization Blueprint for Argentina." *Friedberg's Commodity and Currency Comments*, 1 February: 1-12. Also issued as Cato Institute Foreign Policy Briefing No. 52, 11 March 1999.
- Hanke, Steve H., and Kurt Schuler. 1999b. "A Monetary Constitution for Argentina: Rules for Dollarization." *Cato Journal* 18 (3): 405–419.
- Ocampo, Emilio, and Nicolás Cachanosky. 2022, 2023. *Dolarización: una solución para la Argentina*, 1st ed. 2nd ed. Buenos Aires: Editorial Claridad
- Strezewski, John. 2020. "On Currency Boards: An Updated Bibliography of Scholarly Writings (2020)." Studies in Applied Economics Working Paper Series No. 163, Johns Hopkins Institute for Applied Economics, Global Health, and Study of Business Enterprise.
- Wang, Cathy. 2023. "A Bibliography of Dollarization Scholarship (2023)." Studies in Applied Economics Working Paper Series No. 241, Johns Hopkins Institute for Applied Economics, Global Health, and Study of Business Enterprise.