



Spring 5-18-2024

Dollarization Dynamics in Ecuador and Argentina: Assessing its Viability and Success as a Remedy for Weak Latin American Economies

Margarita Maria Fernandez Pereira

Follow this and additional works at: https://research.library.fordham.edu/international_senior

 Part of the [Economic Policy Commons](#)

Dollarization Dynamics in Ecuador and Argentina: Assessing its Viability and
Success as a Remedy for Weak Latin American Economies

Margarita Fernandez Pereira

B.A in International Studies, Global Affairs Concentration

Fordham College Lincoln Center

Thesis Instructor: Caley Johnson, Ph.D.

Thesis Advisor: Jose Aleman, Ph.D.

Fall 2023

Table of Contents

Abstract.....	3
Introduction.....	4
Literature Review.....	6
<i>Dollarization.....</i>	<i>6</i>
Types of Dollarization.....	7
The development of the dollar as the world's reserve currency.....	8
Nations that have dollarized.....	9
<i>The Ideal Effects Of A Successful Dollarization.....</i>	<i>11</i>
Lowered Inflation.....	11
Public Support.....	11
Business Transactions and Trade in the Newly Adopted Currency.....	12
Decrease in National Debt.....	13
<i>Contemporary Events in Dollarization.....</i>	<i>13</i>
<i>The Supporters and Detractors of Dollarization.....</i>	<i>14</i>
<i>Gaps in Scholarship.....</i>	<i>15</i>
Case Studies.....	17
<i>Ecuador.....</i>	<i>18</i>
Pre-Dollarization.....	18
Post Dollarization.....	22
<i>Argentina.....</i>	<i>29</i>
Past Economic Context.....	29
Contemporary Context.....	31
Anticipating Outcomes.....	33
Discussion and Analysis.....	37
Conclusion.....	41
Bibliography.....	43

Abstract

The history of currency reflects political histories, the shifting currents of the global market, and the enduring legacies of previous governments, offering a compelling narrative of a nation's economic evolution deeply entwined with broader historical forces. Many contemporary nations are faced with the decision to replace their currencies with those of another country. In the face of economic and political instability, adopting another currency can influence the national wealth and its position in the global market.

This thesis explores dollarization as an economic strategy, examining its viability and success, particularly in weak Latin American economies. The paper navigates Ecuador and Argentina, presenting them as compelling case studies. The imminent policy shift proposed by Argentina's President, Javier Milei, adds contemporary relevance to the exploration.

The analysis scrutinizes the benefits and shortcomings of dollarization, drawing on Ecuador's experience and the current economic challenges faced by Argentina. This thesis argues that the ideal effects of a successful dollarization process should be lowered inflation, public support, increased business transactions, and decreased public debt.

In the discussion and analysis section, Ecuador's success in achieving low inflation and public support is juxtaposed with potential drawbacks such as social discontent and adverse effects on local businesses. Argentina's economic challenges, including inflation, debt burdens, and a divided public opinion, contribute to the complexity of the potential adoption of dollarization. The analysis of advantages highlights immediate inflation control, enhanced public confidence, and increased foreign investment. However, potential disadvantages, such as long-term debt challenges and social unrest, present a nuanced perspective.

Introduction

The U.S. dollar has been categorized as the world's reserve currency ever since the Bretton Woods Conference of 1944, where 44 countries agreed to the creation of the IMF, the World Bank, and a system in which each nation pegged their currency to the U.S. dollar (Siripurapu and Berman). Since then, nations have gauged how well their national currency is concerning the stable U.S. dollar. Nations have saved in dollars, made international trade in dollars, and accumulated debt in dollars. Latin America has become reliant on the American currency due to inflation, debt, and weak governments. The dollar allows a stable comparison of a nation's currency to assess its value. This reliance sometimes becomes so hyper-dependent that nations are essentially dollarized, just not officially. All large transactions are made in this currency, and citizens think in terms of dollars because the national coin loses value daily. In these situations, the government may adopt the U.S. dollar and abandon its own officially. In order to gauge whether a dollarization process was successful, this thesis considers a series of ideal effects that this policy should achieve to be considered overall beneficial. These are lowered inflation, public support, business transactions and trade in the newly adopted currency, and a decrease in public debt.

This paper will assess the viability and success of dollarization as a remedy for weak Latin American economies. I will analyze the case of Ecuador, which dollarized in the year 2000, and discuss the benefits and shortcomings of the policy as well as the factors that led the nation to make the drastic decision. Posteriorly, I will analyze the case of Argentina, a nation whose

economy has fluctuated through the decades with one aspect in common: its fascination with the U.S. dollar. I will be delving into Argentina's economic policies in the late nineties and dissect the reasonings behind why Argentina currently finds dollarization appealing. Additionally, I will debate the possible ramifications of Argentina following through with a dollarizing process. Finally, I will compare and contrast the two cases to draw conclusions on the policy's extent to be a viable and successful solution to a weak economy.

The topic is relevant because, as of November 2023, Argentina's newly elected president, Javier Milei, intends to dollarize the economy. This risky and controversial policy has been popular in other Latin American nations such as Panama, El Salvador, and Ecuador. Ecuador holds a similar story to Argentina: extreme inflation, unpopular presidencies resulting in resignations, and a desire to participate in international trade, amongst others. Ecuador is a past mirror for Argentina, which can use its case to seek advice and warnings. The paper presents a nuanced analysis of the advantages and disadvantages of dollarization. It discusses the potential benefits, such as immediate inflation control, enhanced public confidence, and increased foreign investment. However, it highlights potential issues like long-term debt challenges, social discontent, and adverse effects on local businesses. These conclusions are drawn by examining Ecuador's experience with dollarization and considering Argentina's current economic challenges.

Literature Review

In this thesis section, I outline the literature relevant to dollarization. Moreover, I analyze dollarization and the different types of dollarization and discuss nations that have already dollarized their economies. Additionally, I address the development of the dollar as the world's reserve currency. I define each effect of successful dollarization: less inflation, public support, business transactions in the newly adopted currency, and a decrease in national debt. Finally, I will address relevant conflicts of opinion within existing scholarship and identify gaps that the thesis can fill.

Dollarization

According to the IMF, dollarization is a currency substitution from the national currency to a foreign one, usually the US dollar (IMF). According to Andrew Berg and Eduardo Borensztein from the IMF Research Department, most developing or market-emerging nations already employ a pseudo-dollarization or informal dollarization to a greater or lesser degree (Berg and Borensztein 2000). Companies may choose to do business in an unstable economy through a more stable currency, such as the US dollar, the British pound, or the euro. (Berg and Borensztein 2000). Citizens may exchange their national currency for a more stable one regarding their savings. (Berg and Borensztein 2000). These decisions further weaken the national currency, sometimes leading to full dollarization. (Berg and Borensztein 2000).

Types of Dollarization

Tomás J.T. Baliño, Assistant Director in the Monetary Operations Division of the IMF's Monetary and Exchange Affairs Department, examines in "Current Developments in Monetary and Financial Law, Volume 2" different types of dollarization. According to Baliño, the key difference is "whether a domestic currency circulates in parallel with the foreign currency" (Baliño 2003, 613). Full dollarization, then, is when the foreign currency has completely taken over the place of the domestic currency, becoming the medium of exchange, the medium of storage, and the official unit of account. Partial dollarization commonly arises as a response to the necessity of safeguarding the value of income and assets in the domestic currency from the consequences of elevated inflation rates. Nevertheless, when a country partakes in partial dollarization, it does not mean that the foreign currency will take over all functions of the domestic currency.

When economists examine partial dollarization, they typically categorize it into two main types: asset substitution and currency substitution. (Baliño 2013, 614-615) Asset substitution involves storing wealth in foreign currency-denominated assets, while currency substitution involves using foreign currency for transactions (Baliño 2013, 615). Although less commonly addressed in academic literature, dollarization can also manifest as borrowing in foreign currency, known as liability dollarization. (Baliño 2013, 615).

Guillermo Calvo, the American-Argentine economist, discusses the process of dollarization in "On Dollarization." He rejects the belief that dollarization is an abrupt measure that must include the surrendering of the central bank's power to produce its own currency. (Calvo 2002, 43). He suggests that it may be a gradual transition, beginning with partial dollarization and eventually

reaching full dollarization (Calvo 2002, 43). Calvo insists that emerging markets, especially nations with historically high inflation, almost always take into account exchange-rate volatility (Calvo 2002, 43). In these scenarios, the central bank no longer holds the trust of its people or national companies to be a lender of last resort since these entities are uninterested in a currency that is rapidly devaluing (Calvo 2002, 44).

The development of the dollar as the world's reserve currency

Anshu Siripurapu and Noah Berman argue in “The Dollar: The World’s Reserve Currency” that the dollar is the most important means of exchange globally. This status was achieved after the Bretton Woods Conference of 1944, where 44 countries agreed to the creation of the IMF, the World Bank, and a system in which each nation pegged its currency to the U.S. dollar (Siripurapu and Berman). It used to be USD 35 per ounce of gold held by the Federal Reserve. However, President Richard Nixon changed this convertibility during his time in office (Siripurapu and Berman). Currently, many countries either peg the value of their currency to another one or allow the value to fluctuate within a specific range. (Siripurapu and Berman). This global centrality in the U.S. dollar increases the power of the country’s financial sanctions since almost all trade worldwide is done in dollars. (Siripurapu and Berman). Additionally, there are also governments that float their currency, allowing currency markets to determine their value. Due to the U.S. dollar being an appealing reserve currency, its value in the market remains consistent.

Nations that have dollarized

Besides the United States and U.S. territories, 11 nations utilize the U.S. dollar as their official currency and reject their national currency. These include Ecuador, El Salvador, Zimbabwe, The British Virgin Islands, The Turks and Caicos, Timor and Leste, Bonaire, Micronesia, Palau, Marshall Islands, and Panama (Investopedia).

Shannon K. O'Neill, author, and Vice-President of Latin America Studies at the Council on Foreign Relations, theorized that globalization, or the lack thereof, sets Latin America on the track of instability (O'Neill, 2022). Latin America has not mastered globalization, which has left the continent economically behind and put its currencies in jeopardy of devaluation (O'Neill, 2022). The main reasons are limited diversification of industries, lack of trade integration, and limited intra-regional Trade (O'Neill, 2022). Nations that struggle financially tend to ask for loans from the IMF or the World Bank. This dollar-based debt devalues the national currency and can lead to partial dollarization, sometimes even full dollarization (Belaisch, Collyns, and De Masi, Meredith, Singh, Krieger, and Rennhack).

Panama represents the ideal dollarization outcome for many Latin American countries. The first nation to dollarize, Panama, officially embraced the U.S. dollar as its currency in 1904, while Ecuador adopted dollarization in September 2000, and El Salvador followed in January 2001. These nations have chosen to forgo their domestic currencies in favor of the U.S. dollar, intending to attain economic stability and foster growth. According to Quispe-Agnoli, professor of International Economics at Mercer University, Panama, the first Latin American nation to dollarize, did so as a response to the cultural and political advantages of this decision rather than an economic reason, which is why other Latin American countries tend to seek out dollarization

(Quispe-Agnoli 2002, 9). At the start of the twentieth century, Panama was a natural route for trade for the United States. The construction of the Panama Canal encouraged a closer relationship between the two nations, which led to the decision to dollarize (Quispe-Agnoli 2002, 9). This country is an outlier compared to other dollarized economies in Latin America, which dollarized out of desperation after a plummeting currency and economic crises.

In Alejandra Palacios Jaramillo's "A Tale of Two Countries: Dollarization in Panama and Ecuador," she agrees with Quispe-Agnoli's argument on Panama's reasoning to dollarize. Palacios Jaramillo wrote that in Panama's case, the decision to adopt the U.S. dollar was primarily driven by a political strategy to simplify and enhance the country's bilateral relationship with the United States (Palacios Jaramillo). In contrast, Ecuador faced high inflation and was interested in embracing the U.S. dollar amidst a severe economic crisis (Palacios Jaramillo). According to Ecuador's president, Jamil Mahuad, dollarization represented the only way for the country to rise from economic desperation (Palacios Jaramillo). In January 2000, the U.S. dollar had an exchange rate of 4,000 Sucres (Ecuador's former national currency) per dollar. Nevertheless, by December 2000, this rate had increased to 28,000 Sucres per dollar. Ecuador ceased the circulation of the Ecuadorian Sucre in the same year and entirely replaced it with the U.S. dollar (Palacios Jaramillo). Latin America, in particular, has been partaking in partial dollarization. Nations like Brazil, Argentina, and Uruguay historically took part in a dollar-dominant trade (IMF).

The Ideal Effects Of A Successful Dollarization

Lowered Inflation

Myriam Quispe-Agnoli argues that full dollarization eliminates the risk of depreciation of the domestic currency, which should lead to a decrease in inflation (Quispe-Agnoli 2002, 8). Because high inflation tends to be the main factor in dollarization, a successful dollarization should cause a long-term decrease in inflation. Panama's economic performance is consistently a stable growth rate averaging 4.4%, surpassing the typical growth rates seen in other Central American nations, with only minimal fluctuations at 2.8%. Furthermore, Panama sustains a shallow and stable average inflation rate of 1.1%, with a mere 0.4% volatility. Notably, Panama's inflation rate is two percentage points below the United States average, [2002] leading to a continuous depreciation of the real exchange rate (Quispe-Agnoli 2002, 10).

Public Support

Reduced uncertainty and economic betterment in civilians should lead to them trusting the newly adopted currency and utilizing it for savings and transactions. Ali Demirgüç-Kunt and Leora Klapper note that over 60 percent of Latin American adults are untrusting of banks or not affiliated with one (Demirgüç-Kunt and Klapper, 2012). Being unbanked means being unable to access checks, credit, or other banking tools. (Demirgüç-Kunt and Klapper, 2012). They state that 55 percent of the unbanked say they lack funds to open an account, 40 percent say accounts are too costly, and 21 percent say they lack sufficient documentation (multiple responses were allowed) (Demirgüç-Kunt

and Klapper, 2012). Nevertheless, Latin Americans with funds and documentation may still choose to distrust banks if the currency is volatile. James Grainger wrote for the BA Times that after the eighth significant financial crisis since 1950, Argentines prefer to save US dollars and hide them in their home rather than keep Argentine Pesos in the bank (Grainger, 2020). In the case of a successful dollarization, there should be public support and trust in the currency.

Business Transactions and Trade in the Newly Adopted Currency

In weak economies, businesses do transactions with a stable currency such as the Euro or U.S. dollar instead of the official currency. As a consequence, Successful dollarization would have increased trust by national businesses in the country's monetary stability. Consequently, large businesses would partake in transactions with the new official currency. Additionally, it would stimulate foreign investment as a stable currency provides a sense of security for investors, multinational corporations, and local businesses looking for international trade. By dollarizing successfully, the country should find itself with reduced transaction costs and increased price transparency. Conducting transactions in this new currency business can minimize the need for conversion fees. When it comes to price transparency, adopting a stable currency can decrease the fluctuations of prices due to the changing value of the currency. Thus, business transactions in the newly adopted currency are crucial to proper dollarization.

Decrease in National Debt

If a nation has a national debt to the IMF or World Bank in USD, successful dollarization should mean a decrease in this debt as the newly official currency. Adopting the US dollar eliminates the potential for currency devaluation, leading to lower interest rates. This reduction in interest rates positively impacts public debt, as it lowers the cost of servicing that debt. Eliminating devaluation risk in the private sector can result in more consistent capital flows, boost foreign investor confidence, and stimulate investment and economic growth. Nevertheless, it is essential to note that sovereign or default risk remains a factor, and investors continue to react to financial crises, including economic shocks and country-specific political and social conditions. (Quispe-Agnoli 2002, 8).

Contemporary Events in Dollarization

Certain writers started to contend that within a globally liberalized capital environment, only two extreme exchange rate systems could endure in the foreseeable future: flexible exchange rates or firm pegs, such as a currency board or the adoption of a robust foreign currency as the domestic medium of exchange. Through the establishment of the euro, some of the world's oldest nations relinquished their monetary independence in favor of a supranational currency. This has contributed to increasing the political acceptability of abandoning a national currency. (Baliño 2023, 621).

In August 2023, BRICS (Brazil, Russia, India, China, and South Africa) were called by the Brazilian president to create a common currency for trade to displace the dependency of emerging economies to the U.S. dollar (Savage, 2023). Savage writes that while this project is

unlikely, it shows a trend toward wanting to de-dollarize (Savage, 2023). The dollar still dominates 90% of global forex transactions, but this trend might pose a potential threat to the global dollar hegemony.

Additionally, nations like Argentina are currently [November 2023] on the brink of fully dollarizing. Argentina is struggling with extreme levels of inflation, only comparable to the 2001 Argentine economic crisis, and thirty-one billion one hundred million U.S. dollars in debt to the IMF (IMF, 2013). Argentina's elected presidential candidate, Javier Milei, suggests dollarization as a way to combat this catastrophe (Rosario, 2023). His controversial plan is to dissolve Argentina's central bank, eliminate the peso, and adopt the U.S. dollar as legal tender (Gabin, 2023).

The Supporters and Detractors of Dollarization

The central conflict in existing scholarship is whether dollarization is viable for nations with a plummeting currency who choose to substitute the U.S. dollar. Guillermo A. Calvo suggests it is not a cure-all remedy for a struggling economy. Instead, he argues that nations may benefit from reduced currency risk, lower exchange rate volatility, increased credibility, and the elimination of fear of floating. (Calvo 2002, 7). However, these nations risk losing monetary independence, lenders of last resort, limited economic flexibility, dependence on the U.S. economy, and transition costs (Calvo 2002, 8).

Baliño agrees that it can be both beneficial and detrimental. He argues that such a move can bring about several advantages, including achieving price stability, simplifying international

trade, particularly with nations that utilize the adopted currency for global transactions, and extending the maturity of financial instruments. Nevertheless, it also comes with certain drawbacks, such as the loss of seigniorage income and the necessity for flexibility in nominal wages and prices to facilitate real wage and price adjustments (Baliño 2003, 626).

Other scholars believe it is a primarily advantageous solution. Peter Coy believes nations only dollarize out of desperation, but he believes it would most likely get rid of that nation's high inflation overnight. Without an augmentation in the supply of dollars, the overall price level cannot escalate unless there is a boost in the rate at which money circulates. (Coy, 2023).

Oppositely, some find dollarization less appealing. Andres Velasco, a former finance minister of Chile and current dean of the School of Public Policy at the London School of Economics, writes that dollarization treats the symptom. However, it is not the root of the disease and, thus, is not a viable solution for high inflation (Spinetto, 2023).

Gaps in Scholarship

Many Latin American countries are tied economically to the U.S. dollar through debt or business transactions. Most countries would be categorized as partially dollarized due to the constant comparison of their national currency to their dollar equivalent. In the case of Argentina, the change is imminent due to the ever-rising value of the dollar and the upcoming presidential elections. There are gaps in scholarship regarding dollarization in Argentina because it is happening currently. Nevertheless, this thesis will aim to predict the success or failure of a

potential full dollarization in Argentina, considering current affairs and examples of other nations, such as Ecuador, who went through a similar currency substitution.

Case Studies

In this section, I will discuss the cases of Ecuador and Argentina concerning the topic of dollarization. Ecuador has already undergone the dollarization process, allowing for an assessment of both the current consequences of adopting the U.S. dollar and the ongoing trends in the country. In order to properly understand the current status of each country, it is crucial to understand the historical circumstances of each nation as well as the contemporary context. This thesis aims to explore how successful dollarizing is in combating a weak national currency. Consequently, discussing a nation that has already dollarized and another that is considering it is advantageous.

Examining Ecuador involves understanding the impact of using the U.S. dollar on economic stability. This research extends beyond immediate outcomes, seeking insights into how Ecuador's economic landscape continues to evolve post-dollarization.

Shifting the focus to Argentina, a country grappling with strenuous inflation for the past decade, discussions are underway regarding the potential adoption of the U.S. dollar. In the case of Argentina, the evaluation will not center on the success or failure of a past dollarization. Instead, the focus is on predicting and evaluating the potential consequences if Argentina adopts the U.S. dollar.

This exploration aims to provide a comprehensive understanding of how dollarization plays out in real-world scenarios, using Ecuador and the prospective case of Argentina as illustrative examples.

Ecuador

Pre-Dollarization

In the late 1990s, Ecuador endured a banking, economic, and institutional crisis that led to the replacement of the Ecuadorian sucre and the adoption of the U.S. dollar in 2000. Between 1990 and 1997, GDP growth averaged 3.5 percent while exports doubled (Jacome 2004, 6). While the economy grew slowly, inflation was still relatively high despite a drastic decrease from previous years. Unfortunately, the late 1990s would drive Ecuador to a dire economic situation characterized by inflation, devaluation of the sucre, and massive public discontent.

In the early 1990s, Ecuador seemed to be on the right track. Stringent fiscal policy and market-oriented structural reforms led to positive prospects. Restrictions on capital accounts loosened, which allowed capital inflows and a notable appreciation of the real exchange rate, amounting to 20 percent between 1993 and 1995 (Jacome 2004, 12). Consequently, the central bank effectively conducted policies to reduce inflation until late 1995 (Jacome 2004, 15). Between 1993 and 1995, short-term macroeconomic policies were put in place in an attempt for stability (Jacome 2004, 6). While inflation went down from 40 percent in 1993 to 22 percent in 1995, by 1999, inflation would rise again, but this time, to over 50 percent (Jacome 2004, 6).

Behind the curtain, fiscal policy, debt, and exogenous events would be the ultimate downfall of the Ecuadorian sucre.

Regarding fiscal policy, Ecuador had five presidents in the decade (Brittanica, 2023). These differing leaderships would oscillate between periods of massive public spending and fiscal adjustment policies (Jacome 2004, 7). Oil made up almost 30 percent of Ecuador's total

revenues, and due to the instability of oil prices in the world market, Ecuadorian leaders' fiscal adjustments would vary depending on the current state of the oil market (Jacome 2004, 7). This perpetual back and forth in fiscal revenue and policies fatigued the Ecuadorians and businesses. This grew distrust for the government's capabilities to ensure stability (Jacome 2004, 7). The increase in total expenditure (public sector wages and public debt interest payments) amounted to almost three percentage points of GDP between 1994 and 1998 (Jacome 2004, 8). The sucre became highly depreciated since most of the debt was in U.S. dollars.

Due to a limited ability to access international capital markets and restrictions on the central bank's capacity to finance the fiscal deficit, it was difficult for Ecuador to secure funds to deal with the sizeable fiscal gap resulting from financial shocks (Jacome 2004, 8). Despite a debt default in 1987 and a restructuring of Brady bonds in 1994, Ecuador had only one instance of accessing international capital markets, which occurred in 1997 (Jacome 2004, 8). With this limited external financing, the government had to rely heavily on the domestic market, primarily local financial institutions (Jacome 2004, 8). These institutions purchased government securities denominated or indexed to foreign currency. Consequently, the domestic debt skyrocketed from 2 to nearly 20 percent of GDP between 1990 and 1998. This substantial increase in domestic debt contributed significantly to the overall surge in total public debt, reaching over 90 percent of GDP by 1998 (Jacome 2004, 8).

Simultaneously, the El Niño floods in 1997-8 affected agriculture severely and exports (Jacome 2004, 16). Regarding oil, global market prices for Ecuadorian crude oil plummeted to below \$10 per barrel, impacting public finances and exacerbating the scarcity of foreign currency

(Jacome 2004, 16). Additionally, external crises such as the Russian Financial Crisis, the Brazilian financial crisis, and the Cenepa War caused acute economic losses for Ecuador in the 1990s (Jacome 2004, 17). The multiple financial crises led to capital outflows from most other countries in the region. The Cenepa War was a historical dispute between Ecuador and Peru including a war in 1941 and a minor confrontation in 1981, both related to the contested area of the Cenepa Valley. Ecuadorian outposts at the Cenepa River triggered the conflict when discovered by a Peruvian patrol, leading Peru to issue an ultimatum for their withdrawal. As the deadline passed, Peruvian troops removed the outposts, prompting a general mobilization on both sides. Negotiations between the governments resulted in the Rio Protocol, signed on October 26, 1998, finalizing the border (University of Edinburgh, 2023).

The banking crisis was sparked by the closing of the small bank Solblanco, which led to a mass deposit withdrawal (Jacome 2004, 17). By August 1998, small and medium-sized banks could not honor their obligations, and eventually, even large banks could not return their deposits to large savers (Jacome 2004, 17). Filanbanco, a prominent financial institution with the most extensive assets base, significant credit lines, and the second-largest deposit holdings (constituting 14 percent of the onshore financial system), sought liquidity support from the Central Bank of Ecuador (CBE) in September (Jacome 2004, 17). This forced Ecuador to seek emergency loans, reaching nearly 30 percent of the money base (Jacome 2004, 17). The Central Bank of Ecuador (CBE) implemented measures to enhance exchange rate flexibility in response to the ongoing crisis. Specifically, it discreetly adjusted the crawling band, likely allowing for a more flexible range of exchange rates. (Jacome 2004, 17).

Additionally, the government addressed economic challenges by implementing adjustment measures, notably through increased domestic gasoline prices (Jacome 2004, 17). As the crisis unfolded, there was a notable shift in currency preferences among depositors, preferring the U.S. dollar to the sucre. As a result, the sucre devalued 24 percent between September and November 1998 (Jacome 2004, 19).

The Deposit Guarantee Agency (AGD), established by the Ecuadorian government on December 1, 1998, was tasked with restoring stability to bank liabilities. It provided guarantees for trade credit lines and ensured the security of all bank deposits. It was approved, which meant the creation of a 1 percent tax on financial transactions—debits and credits—to substitute the income tax (Jacome 2004, 19). By the new year, the run on the sucre was at an all-time high, and the plummeting oil prices were not bettering Ecuador's economic position. By March 1999, saving deposits with more than 500 U.S. dollars and half of all checking accounts were frozen for the foreseeable future, which momentarily stopped inflation and the devaluation of the sucre but to the cost of admitting that the government was incapable of creating a proper safety policy (Jacome 2004, 22). In July 1999, the government attempted to de-freeze the deposits, which only caused another bank run, creating a vicious cycle that prompted a mass-scale distrust for the sucre and refuge in the stability of the U.S. dollar (Jacome 2004, 23).

In January 2000, faced with rapidly rising inflation and a plummeting exchange rate, President Jamil Mahuad officially announced the adoption of the dollar, thereby dollarizing the economy (Cueva and Diaz 2019, 15). The exchange rate for converting sucres to dollars was fixed at 25,000 sucres per dollar to ensure ample reserves for the currency swap. This decision

encountered significant opposition, even within the central bank (Cueva and Diaz 2019, 15). The protests and social unrest that ensued led to Mahuad's resignation just two weeks after the dollarization announcement. Gustavo Noboa, Mahuad's successor, continued the dollarization process, completing its full implementation by the end of the year (Cueva and Diaz 2019, 15).

To sustain the dollarization system, policymakers enacted fiscal responsibility laws, capping the annual growth rate of the central government expenditures at 3.5 percent and limiting the debt-to-GDP ratio to 40 percent (Cueva and Diaz 2019, 15). Several oil stabilization funds were established to compel government savings, albeit with earmarks for various projects (Cueva and Diaz 2019, 15). Additionally, authorities agreed with international lenders to restructure the government's defaulted foreign debt, resulting in a 40 percent reduction in its face value (Cueva and Diaz 2019, 15).

Dollarization directly impacted inflation, which, after peaking at 108 percent in September 2000, steadily declined, reaching single-digit levels by 2003, a significant achievement that had not occurred since the early 1970s (Cueva and Diaz 2019, 15). From 2003 to 2006, the inflation rate averaged 4 percent, showcasing the sustained short-term success of the dollarization strategy (Cueva and Diaz 2019, 15).

Post Dollarization

In order to gauge the success of dollarization in Ecuador, it is crucial to consider the impact on inflation, public opinion, businesses, and debt, not only in the short term but also decades after the implementation.

Lowered Inflation

Lowering inflation was one of the critical reasons behind dollarizing. Ecuador's rapid inflation meant that the national currency became less valuable at an exceeding rate. According to the World Bank, International Monetary Fund, and International Financial Statistics, Ecuador's inflation reached its high in 2000 at 96.1 percent, followed by a dramatic decrease to 37.7 percent by the following year and 12.5 percent in 2002 (World Bank, 2023). Since then, Ecuador has been relatively stable, remaining below the 10 percent line (World Bank, 2023). It was a fear amongst Ecuadorians and economists alike that due to adopting another nation's currency, Ecuador would be negatively affected if the United States faced inflation. Benjamin J. Cohen, the Louis G. Lancaster Professor of International Political Economy at the University of California, Santa Barbara, writes that Ecuador is, "in effect, a currency dependency, a client of the United States" after adopting the U.S. Dollar (Cohen 2003, 45). Lawrence H. White, professor of economics at George Mason University, calls Ecuador's dollarization "a clear success" because it keeps domestic officials out of the way of creating immediate solutions to long-lasting problems (White, 2015). White argues that the Central Bank proved that having this power of being the Lender of Last Resort does not mean being able to utilize it effectively. White argues that granting a central bank, such as Ecuador's, the authority to issue its currency would mean abandoning the stabilizing effect of the dollar anchor, which currently maintains public inflation expectations. In this scenario, the central bank lacks a viable means to establish a credible pre-commitment, ensuring that currency depreciation is solely employed for legitimate adjustments in real wages. (White, 2015).

Since 2017, Ecuador has had less inflation than the United States, with values ranging from 0.4 to -0.3 percent until 2021 (World Bank, 2023). The United States has had relatively low inflation until 2021, when there was a jump from 1.2 in 2020 to 4.7 the following year (World Bank, 2023). The trend continued with an eight percent inflation in 2022 (World Bank, 2023). Ecuador, however, remained with only 0.1 percent inflation in 2021 and an increase to 3.5 percent in 2022 (World Bank, 2023).

Public Support

When the decision to dollarize occurred, it generated an influx of protests and social unrest. (Fischer, 2000). It was controversial because Ecuador would be losing the possibility of being LOLR (Lender of Last Resort) which would mean that the Central Bank would lose its power to create new currency in times of need (Sheppard 2000, 94). This scared Ecuadorians who did not want to rely on the United States for stability or currency demand. Sheppard, author of *Dollarization Of Ecuador: Sound Policy Dictates U.S. Assistance To This Economic Guinea Pig Of Latin America*, argued that dollarization would result in significant social costs, particularly for the working class, as the loss of the ability to devalue the local currency could lead to negative consequences (Sheppard 2000, 96). The elimination of the option to modify the exchange rate under dollarization may force adjustments through reducing wages and increasing prices, potentially causing political and social instability (Sheppard 2000, 96).

Carlos Larrea wrote about the evolution of poverty in this period and separated it into

three sections: deterioration, recovery, and post-crisis stabilization.

During the period from 1998 to mid-2000, Ecuador's poverty increased like never before from 56% in 1995 to 69% in 2000. In major cities like Quito, Guayaquil, and Cuenca, the escalation of poverty was the most notable, from 35% in March 1998 to a peak of 68% in May 2000 only four months after the dollarizing of the economy. Similarly, urban unemployment followed this trend, growing from 8% to 17%, while real wages experienced a sharp decline of 40% (Larrea, 2004).

Between May 2000 and December 2001, there was a partial recovery in social conditions. National poverty lowered from its peak of 69% to 61%, and urban poverty in major cities also declined, reaching 49% by December 2001. Urban unemployment improved by going back to 8%, and real wages showed signs of recovery, almost returning to their pre-crisis levels (Larrea, 2004).

However, starting from early 2002, the de-escalation became slower, giving rise to a new social dilemma. Although poverty continued to decline slowly, reaching around 45%, unemployment experienced a resurgence from mid-2003 onwards, reaching 11.9% in March 2004. Despite this, real wages managed to recover their pre-crisis values, showing a degree of stabilization in the aftermath of the economic challenges faced in the earlier period (Larrea, 2004).

In actuality, according to the 2016/2017 LAPOP survey, 71% of Ecuadorians either favor or strongly favor use of the U.S. dollar (Bessen and Conell, 2017). Nevertheless, this does not mean that Ecuadorians are content with the government or with their policies. There is a growing number of social unrest and demonstrations in Ecuador. In June of 2022, there was a two-week

long demonstration over an increase in food and fuel prices (The Guardian, 2022). At least seven people died after the public blocked roads, torched vehicles, and threw stones. The police responded with tear gas throughout the two-week-long standstill (The Guardian, 2022). This shows that dollarization is not a fix-all solution. While it may have stabilized the economy, it does not ensure an improvement in quality of life for Ecuadorians or a particular response from the government when it comes to economic policies.

Business Transactions and Trade in the Newly Adopted Currency

All business transactions in Ecuador, national and international, are done with U.S. Dollars since it is not only the currency of global trade but also the national currency of Ecuador. Similarly, Sonja Rijnen discusses in the LATAM Dialogue that countries with a stable currency tend to attract more investor confidence, as it assures investors that the value of their investments will not be significantly affected by fluctuations in exchange rates (Rijnen, 2020). Dollarization improved international trade by lowering transaction costs since buyers did not have to exchange their currency to partake in business (Rijnen, 2020).

Following the implementation of dollarization in Ecuador in 2000, there was a notable positive impact on Foreign Direct Investment (FDI). The influx of U.S. dollars increased, contributing to a rise in the percentage of GDP in 2000. The correlation between the surge in FDI and the concurrent increase in GDP was evident. While the years preceding 2000 saw fluctuations, post-dollarization witnessed a positive change in FDI, with significant increases in both inflows and the percentage of GDP in 2001 and 2002. However, political factors, such as the

anticipated election of Rafael Correa in 2005, led to a decline in FDI, only to be countered by Correa's subsequent government programs (Verduga, 2022).

Sonja Rijnen writes that since the implementation of dollarization in Ecuador, the country has experienced an average annual economic growth of 4.4% (Rijnen, 2020). This growth can be partly attributed to dollarization's positive impact on various sectors, including finance, transportation, communication, tourism, hospitality, and the oil industry (Rijnen, 2020). These sectors benefited from increased foreign investment and the streamlining of international transactions, making global trade more accessible (Rijnen, 2020). The United States stands as Ecuador's primary trading partner, with exports to the U.S. witnessing substantial growth post-dollarization (Rijnen, 2020).

Nevertheless, the situation differs for local sectors like agriculture and domestic businesses. Ecuadorian products are relatively more expensive due to the depreciation of other Latin American currencies and the stable value of the U.S. dollar (Rijnen, 2020). Ecuadorians regularly travel to neighboring countries like Peru and Colombia to purchase goods at significantly lower prices. Sam Wang, Research Associate at the Council on Hemispheric Affairs, commented on this phenomenon. Since 2015, thousands of Ecuadorians have been crossing the bridge from Tulcán, Ecuador, to Ipiales, Colombia, daily for shopping (Wang, 2016). They purchase food, cars, televisions, and other goods because there can be prices more than 60 percent lower across the border (Wang, 2016). During a holiday weekend between May 27 and 29, over 50,000 Ecuadorians crossed the border to shop in Ipiales (Wang, 2016). This has raised concerns for the

Ecuadorian government. In 2016 then-president Rafael Correa asked citizens to support national production by buying Ecuadorian products (Wang, 2016).

Decrease in National Debt

The decision to dollarize the economy aimed at addressing significant macroeconomic challenges. It was meant to deal with inflationary outbreaks, unstable exchange rates, fiscal and current account imbalances, and unemployment (Carpio Vinuenza, 2022). In 2000, Ecuador had 17 billion dollars in external debt (Macrotrends, 2021). The GDP of Ecuador in the year 2000 was 18.33 billion U.S. dollars (World Bank Open Data, 2021). The national debt concurrently surged rapidly, reaching an unsustainable level. The public debt 2022 stood at 62.2 billion dollars, equivalent to 45% of GDP (Carpio Vinuenza, 2022).

According to CEIC data, Ecuador's National Government Debt amounted to 74.9 USD billion in June 2023, reflecting a slight decrease from the previous quarter's figure of 75.4 USD billion. This data, updated quarterly and tracked since December 2005, provides insights into the country's fiscal trends. On the one hand, the debt peaked at 75.5 USD billion in December 2022, underlining the economic challenges faced by Ecuador. On the other hand, a record low of 10.0 USD billion was recorded in June 2009, illustrating a significant fluctuation in the country's national government debt over the years (CEIC, 2023).

Argentina

Past Economic Context

Argentina, similarly to Ecuador, went through a deep financial and banking crisis in 2001. Argentina's crisis started partly due to a policy called informally "El Uno A Uno" (The One To One) and formally "Ley de Convertibilidad" (Law of Conversion) (Muños Pederzoli, 2023). In March 1991, Carlos Menem, the then-president of Argentina, and Domingo Cavallo, the then-minister of economy, conducted a plan to deal with the hyperinflation of the previous President Alfonsín (Muños Pederzoli, 2023). This law would peg the "Austral" Argentine currency to the U. S. Dollar, 10.000 australes for one dollar (Muños Pederzoli, 2023). However, during his presidency, Menem changed the austral for the current currency, the Argentine Peso (BCRA, 2023). The peso was pegged to equal the U.S. dollar, one-to-one (Muños Pederzoli, 2023).

On the one hand, this meant that Argentina's inflation would stop immediately. During Alfonsín's presidency, inflation had reached 3000% (Guiretti, 2020). Once the law emerged, inflation quickly dropped to almost zero throughout the nineties (Guiretti, 2020). During the 1990s, stability in the economy facilitated access to credit, including mortgage loans, enabling many individuals to acquire their first homes and cars. The average salary in dollars for registered workers was \$1,290, significantly surpassing the minimum wage in the United States. Adjusted for inflation, this would be approximately \$2,900 today, indicating a high standard of living compared to the current average salary below \$500. Additionally, the 90s saw fewer regulations and increased access to cutting-edge technology in Argentina. The era witnessed the introduction

of advanced technologies similar to those in developed countries like the United States (Muños Pederzoli, 2023).

On the other hand, the country is essentially de-industrialized. The surge in the consumption of imported goods, especially from economic powerhouses like China, led to Argentine pesos leaving the economy, rather than being reinvested in Argentine businesses. Domestically produced goods were seen as way too expensive compared to imported products. High-dollar salaries and low international and local competitiveness led to the closure of many businesses, increasing unemployment (Muños Pederzoli, 2023). Unemployment was another significant issue, and it was directly impacted by deindustrialization, which caused job losses in national businesses and led to 20% of people being unemployed. From 1995 onwards, international companies repatriated funds, and local businesses took advantage of favorable international and local conditions, borrowing in dollars. The national government had to incur foreign currency debt to cover this gap. Finally, due to the high salaries, Argentina became less appealing to international companies, causing them to cease working in the country and increasing unemployment rates.

Cavallo assumed a decline in debt would come by the end of the nineties. However, by the end of 1995, the national debt was set at 87 million dollars (Sulfas and Schorr, 2003). Once Roque Fernandez became Minister of Economy, debt had reached 90.5 million (Sulfas and Schorr, 2003). Interest payments and public expenditures rose, forcing the Central Bank to seek additional loans (Sulfas and Schorr, 2003). By 1999, three in every ten people were unemployed (Paul, 2023).

In 2001, a high demand for U.S. dollars was met with the country's inability to satisfy those demands. Making issues worse, 97% of Argentina's external debt was in dollars (Paul, 2023). The Central Bank attempted to restructure their debt, but the IMF decided to take back their disbursement, leading to a massive bank run with thousands of people demanding their money back (Paul, 2023). In return, the government froze millions of dollars in deposits (Stewart, 2023). Forty thousand companies closed, the government restricted the withdrawal of money in ATMs to only 250 pesos per week, 39 people died in riots, and there were five different presidents in twelve days (BBC).

Contemporary Context

In June 2014, Argentina gained global attention as the United States Supreme Court upheld a ruling favoring distressed-debt hedge funds, commonly known as 'vulture funds.' (Martinez and Nahon, 2014). This marked the end of a decade-long debt litigation, where the U.S. judiciary rejected arguments from various governments supporting Argentina (Martinez and Nahon, 2014). Despite a prior successful debt restructuring accepted by the majority of bondholders, a New York Federal Judge, Griesa, made a surprising ruling, declaring Argentina in violation of a standard pari passu clause in its unstructured sovereign bonds (Martinez and Nahon, 2014). This led to a halt in payments on new bonds until a payment was made to the holdouts, disrupting the payment chain (Martinez and Nahon, 2014). Argentina contested the ruling, gaining significant international support. In 2016, the newly elected government sought to resolve the debt litigation by paying off vulture funds through a substantial bond issuance under New York law (Martinez and Nahon, 2014). Mauricio Macri, the former president of Argentina,

requested and received a significant loan from the International Monetary Fund (IMF) in June 2018. (Mender, Benedict, Stott, 2019). The loan was sought to address Argentina's economic challenges, including a currency crisis, high inflation, fiscal deficits, and a widening current account deficit. However, this debt only worsened as Macri tried to deal with Argentina's large bill, which comprised social programs, corruption, overprinting money, and a combination of external pressures (Anusha, 2022). By December 2019, Argentina had a federal sovereign debt of approximately US\$323 billion, making up 89.5% of the country's gross domestic product. The government was obligated to make debt payments of around US\$52 billion in 2020 and approximately US\$37 billion in 2021, encompassing U.S. dollars and Argentine pesos (Silva, Campbell, and Ranieri, 2023). The following president, Alberto Fernandez, restructured the debt and agreed to refinance its stand-by arrangement with the IMF through a 30-month extended fund facility (EFF) of US\$44 billion (Silva, Campbell, and Ranieri, 2023).

This led to the popularization of the blue dollar. The blue dollar is the informal or black market dollar (Blue Dollar Net, 2023). Due to severe restrictions on exchanges, transactions, and deposits, Argentinians have relied on the black market to exchange pesos for dollars (Blue Dollar Net, 2023). As of October 2023, Argentina owes \$400 billion, inflation runs at 138%, and the unofficial peso has lost over 60% of its value (Campos, 2023). On January 1st, 2023, the blue U.S. dollar was worth 346 pesos. By November, it will be worth almost a thousand (Blue Dollar Net, 2023).

In June 2014, Argentina gained global attention as the United States Supreme Court upheld a ruling favoring distressed-debt hedge funds, commonly known as 'vulture funds.' (Martinez and

Nahon, 2014). This marked the end of a decade-long debt litigation, where the U.S. judiciary rejected arguments from various governments supporting Argentina.

Anticipating Outcomes

Since Milei has not been sworn into office, it is unknown whether dollarization would pan out as he hypothesizes. In the following sections, I will present scholarly opinions on the consequences of dollarization in Argentina.

Lowered Inflation

Dollarization would immediately halt inflation. This is simply because the currency decreases in value. After all, Argentinians have lost trust in it and opted for U.S. dollars. The U.S. currency is desired and not being exchanged for a more stable currency. Thus, adopting the U.S. dollar would inherently stop inflation. The issue is, are there enough dollars to dollarize? Leandro Gabin argues that this is not the case (Gabin, 2023). “I think that (dollarization) is not feasible in the short term,” Alejandro Werner, former director of the Western Hemisphere Department of the International Monetary Fund (IMF), said: “Argentina does not have the dollars to dollarize, and it does not have access to the financial market to obtain dollars. The only thing this would do is inject more Argentine securities into the hands of the international private sector, directly or indirectly, therefore further lowering the value of Argentine securities” (Gabin, 2023). Ocampo, Milei’s economist in charge of the possible dollarization, said that no additional loan would be needed and that \$200 billion in savings and other deposits overseas are currently in the possession of Argentines and would be used for this purpose (Gabin, 2023).

Public Support

Argentina is divided. 56% of the nation voted for Milei, 44% voted for Massa, his rival, and the rest either did not vote or had invalid votes (La Nacion, 2023). Similarly to Ecuador, the complete dollarization of Argentina would be faced with mixed and extreme opinions. The proposal is not moderate and has brought scholars to question its viability.

Ponsot, a Professor of Economics at Université Grenoble Alpes, pointed out that Milei's proposal to shut down the Central Bank to dollarize goes against the insights gained from other dollarized economies. In such nations, the central bank, despite its restricted functions, still plays a crucial role in overseeing the payment system, controlling local currency circulation, and maintaining financial stability. 51% of Argentines receive social benefits from the state, which the central bank adjusts depending on currency circulation. This may bring severe social unrest to Argentina (Olivera, 2023). Nevertheless, Argentinians already distrust the banks, save their money in U.S. dollars, and keep it at home, so there may be surprising support from Argentinians toward this policy (Stewart, 2023).

Business transactions and trade in the newly adopted currency

It is undoubtedly true that businesses would do transactions in the newly adopted currency. For the past decade, Argentines have bought houses, plots of land, cars, and other costly purchases in U.S. dollars. Nicas, Alcoba, and Cholakian Herrera write in the New York Times that Argentinians save up mostly in the blue U.S. dollar, and about 10 percent of all U.S.

currency in circulation is in Argentina, or about \$200 billion, more than in any other country outside the United States (Nicas, Alcoba and Cholakian Herrera, 2023). Businesses have been using the U.S. dollar to ensure the product's value would not change in days.

Regarding trade, Argentina's plummeting economy has scared off large corporations who fear the instability of the peso. Dollarization would eliminate exchange rate risk for businesses engaged in international trade. This can be beneficial for importers and exporters because it eliminates arguments about currency. Trade can be more difficult in a nation whose currency is constantly decreasing in value. The gap in the exchange rate from, for example, Argentine pesos to U.S. dollars, is at a sustained increase. Consequently, there can be arguments on the price of goods or services as the value of one currency increases and the other decreases. For example, an Argentine business imports a particular fragrance from the United States at 30 dollars a pound. The value of 30 dollars a pound would mean 1440 Argentine pesos per pound in 2019 as one dollar was worth around 48 pesos (Exchange.org). Nevertheless, it would be 48000 pesos in 2023, with the value of one dollar reaching 1000 Argentine pesos (Exchange.org). This can deter world trade with Argentina as the prices can become unbearable for national businesses. Having the same currency would mean less price negotiation challenges and less exchange rate risk. However, the case of Ecuador shows that this does not mean prices would become affordable to Argentinians, there is a risk that neighboring nations that still have their own currencies may have exponentially cheaper goods.

Decrease in National Debt

If dollarization requires asking for a loan for Argentina to have enough dollars to exchange them for pesos, then the debt would be higher. That is, if the IMF or any other large lender would accept Argentina's proposition. George Glover wrote for Business Insider that the IMF would unlikely lend any U.S. dollars, considering Argentina is currently its largest debtor (Glover, 2023). If dollarization did not come from requesting U.S. dollars, and Argentina does not have enough reserves, according to Oxford Economics' Lucila Bonilla, "dollarization would require an extremely depreciated exchange rate on conversion and would lead to a large devaluation of the deposits of Argentine savers, causing a severe recession that would likely spark social unrest (Glover, 2023).

Nevertheless, in the case dollarization does occur and there are enough dollars, it would be easier for Argentina to pay it back since devaluation would not be a factor and international markets would be increasingly accessible. These two factors would increase the flow of U.S. dollars in the nation, allowing for the government to more easily repay the debt. It is true, though, that dollarization does not affect the underlying issue of why the debt was accumulated. Glover argues that looking into the failing economic system is crucial instead of pinning Argentina's economic downfall on the Argentine peso or the debt to the IMF. There are reasons why Argentina is unstable, and they require restructuring the entire governance system, not just one radical policy. (Glover, 2023).

Discussion and Analysis

Dollarization is a complex topic to assess. It would be difficult to view dollarization as either a complete solution or a failure. A nation's dollarization will have certain advantages and drawbacks; there will always be scholars, politicians, or citizens who have differing opinions. In order to assess its successes, it is crucial to consider the reasoning, the socio political and economic context, and the policy's aim. A nation that wishes to be closed off and is uninterested in international trade or a global community will find it challenging to find dollarization appealing. A nation that has already been semi-dollarized with a plummeting currency will find it easier to adopt foreign currency. In the following section, I will compare the advantages and disadvantages of dollarization as a policy in Ecuador and Argentina.

Advantages of Dollarization

When it comes to inflation, dollarization can bring immediate results. After a bank run, a collapsing economy, and extreme inflation, Ecuador found that dollarizing has kept inflation at an all-time low. To this day, Ecuador has had less than ten percent inflation, a drastic change from the late nineties. Argentina was in a similar position as Ecuador and itself in the mid-nineties. Inflation has not reached the 3000% scale of 2001, but it is comparable to the years leading up to 2001. Inflation has become a strenuous problem for the average citizen who struggles to make it paycheck to paycheck since each month is worth less. Argentinians distrust the peso and take any chance to exchange it for U.S. dollars, further augmenting the demand for a stable currency. There does not need to be a bank run to realize that a 600 peso increase in the value of a single

dollar is not desirable. Dollarizing would stop inflation at incredible speed, as seen in the case of Ecuador, and ideally, it would help Argentina keep it at a stable range.

Regarding public support, 71% of Ecuadorians currently favor dollarization. Despite the unrest initially, adopting the U.S. currency improved public confidence in the country's economy, and the lack of inflation reinforced a feeling of stability. Argentinians have prioritized the U.S. dollar for decades over their national currency. The 2001 crisis and instability have placed additional value on the American currency since it is viewed as a direct representation of how well or poorly the economy is doing. Argentines distrust banks and the Argentine peso, so if given the chance to completely switch over to the U.S. dollar and have their savings remain in a stable currency, then it would be a popular measure.

Additionally, over half of Argentinians voted for a candidate whose most public policy proposal was dollarization. At least half of Argentina voted in a way that promotes dollarization as part of the nation's potential future. Argentinians could potentially see as much public satisfaction with dollarization in the long run as Ecuador.

This policy can bring intense improvement to a nation's international trade and facilitate business transactions. In Ecuador, dollarizing attracted foreign investors and streamlined economic activities. Firstly, it created a boost in credibility from foreign investors. This is due to the lack of pricing changes, transaction costs, and less fluctuation in long-term value decisions. Since the U.S. dollar is the global currency, most transactions are done in dollars regardless. Thus, this eased the situation for Ecuador. This is seen in the positive impact on various sectors, including finance, transportation, communication, tourism, and the oil industry. Businesses in Argentina have been using U.S. dollars for high-value transactions, indicating potential ease of

transition to a fully dollarized economy. Additionally, reduced exchange rate risks mean the fall of the more expensive blue dollar as dollars are more highly available.

Argentina and Ecuador have both struggled with macroeconomic challenges such as debt. In particular, the nineties meant that both nations took out loans to protect national interests in the face of chaos. The elimination of currency devaluation risks might improve the country's creditworthiness. It could help Argentina pay off its hundreds of billions of dollars worth of debt to the IMF more easily with dollars in circulation instead of being saved inside homes. If implemented without accumulating additional debt, dollarization could make it easier for Argentina to repay its debt.

Disadvantages of Dollarization

In regards to inflation, it may be an ideal immediate solution. However, Argentina has had experiences with easy-fix solutions like the One-To-One policy, which inevitably led Argentina to the worst economic state it has ever had. Ecuador's inflation remaining stable may not mean the same for Argentina. Factors such as social spending, corruption, and foreign debt, amongst others, impact inflation in the long run. Simply because it has worked before does not ensure Argentina's long-term inflation would decrease.

Socially, dollarization has proved to receive mixed reviews. Current social unrest and demonstrations in Ecuador prove that dollarization has not guaranteed all Ecuadorians an improved quality of life or stability. 44% of Argentinians did not vote for Milei and were likely not in favor of his policies, which could cause discontent. Additionally, dollarization has yet to bring improvements to small and domestic businesses. Ecuadorians are forced to travel across

national borders for cheaper products. Dollarization opens the door for foreign businesses but may close the doors for domestic ones. It becomes increasingly expensive to sustain a small or domestic business when everyone gains in the 'global currency' and can spend on products produced in mass-producing factories. This could lead to national businesses shutting down and being replaced by cheaper, foreign alternatives, leading to a loss of jobs.

In terms of debt, dollarization did not positively impact Ecuador, which had 18 million in debt in 2000 and will steadily grow to 62 billion by 2022. Argentina's most significant issue is its foreign debt to the IMF, which currently stands at almost 400 billion. To risk the situation getting worse than before is not a decision to take lightly. It is also crucial for Argentina to stop requesting further loans. Nevertheless, if dollarization is impossible with current reserves, loaning would be a solution to implement the policy. Taking a further loan would only cause further chaos and keep Argentina in an unstable position globally.

Conclusion

It is clear that dollarization, as an economic strategy, is not a black-or-white issue. Its success in Ecuador reveals advantages such as inflation control, enhanced public confidence, and increased foreign investment. Dollarization greased economic activities, boosting credibility with global investors and attracting foreign capital. Argentinians are tired of inflation, blue dollars, and saving in mattresses. The public searched for a radical candidate who would change things; for better or worse, dollarization would indeed change things.

However, issues such as the risk of long-term debt challenges, social discontent, and adverse effects on local businesses may be too costly for Argentina to bear. The experience in Ecuador demonstrates that while it may offer stability and improve debt management in the short term, it does not guarantee an improvement in the quality of life for citizens. Like current Argentinians, Ecuadorians struggle to afford products in their own country. That is an issue that dollarization should ideally ameliorate. Argentina, considering adopting the American currency, faces divided public opinion as the wounds of the 2001 crisis are still feel fresh.

Dollarization could provide a short-term solution to stop inflation. However, Argentina's lack of sufficient dollars and limited access to financial markets could complicate the dollarization process or take Argentina down with debt. Milei's proposition of completely shutting down the Central Bank to adopt the U.S. dollar sparks debates and, potentially, social unrest due to the central bank's crucial role in overseeing payment systems and maintaining financial stability.

Ecuador's example indicates that while it may open doors for foreign businesses and facilitate international transactions, it could end many domestic enterprises, contributing to unemployment. In Argentina, the existing economic challenges, including high inflation, debt burdens, and the emergence of a black market for the U.S. dollar, add further questions to the potential adoption of dollarization. Still, Argentinians reign hopeful at the dawn of a new presidency, hoping they made the right choice and that change will be for the better.

Bibliography

Alejandra Palacios Jaramillo. "A Tale of Two Countries: Dollarization in Panama and Ecuador - the New Global Order." *The New Global Order*, November 14, 2022. <https://thenewglobalorder.com/world-news/ready-for-publication-a-tale-of-two-countries-dollarization-in-panama-and-ecuador/#:~:text=In%20the%20case%20of%20Panama,control%20of%20the%20Panama%20Canal..>

Bce.fin.ec. "Banco Central Del Ecuador - BCE," 2023. <https://www.bce.fin.ec/>.

Belaisch, Agnes A, Charles Collyns, Paula De Masi, Guy M Meredith, Anoop Singh, Reva Krieger, and Robert Rennhack. *VI Financial Dollarization in Latin America*. IMF ELibrary. International Monetary Fund, 2023. <https://www.elibrary.imf.org/display/book/9781589062504/ch06.xml>.

Berg, Andrew, and Eduardo Borensztein. "Economic Issues No. 24 -- Full Dollarization." *Imf.org*, 2000. <https://www.imf.org/external/pubs/ft/issues/issues24/>.

Berman, Noah, and Anshu Siripurapu. "The Dollar: The World's Reserve Currency." *Council on Foreign Relations*, 2023. <https://www.cfr.org/backgroundunder/dollar-worlds-reserve-currency#:~:text=Since%20the%20end>

%20of%20World%20War%20II%2C%20the%20dollar%20has,other%20transactions%20around
%20the%20world..

Bessen, Brett R, and Brendan J Connell. “Another Day, Another Currency: Self-Interest, Experience, and Attitudes toward Dollarization in Ecuador.” *Political Behavior*, December 19, 2022. <https://doi.org/10.1007/s11109-022-09840-z>.

Blue Dollar. “Blue Dollar Rates : Dólar Blue Informal Rate of US Dollar in Argentina | Blue Dollar Rates,” January 8, 2016. <https://bluedollar.net/informal-rate/>.

Calvo, Guillermo A. “On Dollarization.” *Economics of Transition* 10, no. 2 (July 1, 2002): 393–403. <https://doi.org/10.1111/1468-0351.00117>.

Campos, Rodrigo. “Dollarization, Devaluation, Debt: Potential Traps for Argentina Investors.” *Reuters*, October 20, 2023. <https://www.reuters.com/world/americas/dollarization-devaluation-debt-potential-traps-argentina-investors-2023-10-20/#:~:text=Financing%20subsidies%20is%20partly%20behind,2022%2C%20according%20to%20the%20IMF..>

Carpio Vinueza, Sonia. “IMPACT of DOLLARIZATION ECUADOR’S ECONOMIC PERFORMANCE,” 2022.

<https://www.saintpeters.edu/wp-content/uploads/blogs.dir/270/files/2022/12/Sonia-Carpio-The-Impact-of-Dollarization-on-Ecuador's-Economic-Performance.pdf>.

Cohen, Benjamin J. "Dollarization, Rest in Peace." *International Journal of Political Economy* 33, no. 1 (2003). <http://www.jstor.org/stable/40470825>.

Collins, Dan. "Ecuador at Standstill after Two Weeks of Protests over Cost of Living Crisis." *The Guardian*. *The Guardian*, June 25, 2022. <https://www.theguardian.com/world/2022/jun/25/ecuador-at-standstill-after-two-weeks-of-protests-over-cost-of-living-crisis>.

Constituteproject.org. "Argentina 1853 (Reinst. 1983, Rev. 1994) Constitution - Constitute," 2023. https://www.constituteproject.org/constitution/Argentina_1994.

Coy, Peter. "Opinion | In Argentina, the U.S. Dollar Could Soon Become King." *The New York Times*, 2023. <https://www.nytimes.com/2023/10/06/opinion/argentina-us-dollar.html#:~:text=The%20biggest%20plus%20is%20that,the%20United%20States%20or%20borrowing..>

Cueva, Simón, and Julián Díaz. "The Case of Ecuador," 2019. <https://bfi.uchicago.edu/wp-content/uploads/The-Case-of-Ecuador.pdf>.

Demirüç-kunt, Asli, and Leora Klapper. "Latin America: Most Still Keep Their Money under the Mattress." World Bank Blogs, May 18, 2012.

<https://blogs.worldbank.org/latinamerica/latin-america-most-still-keep-their-money-under-the-mattress>.

Elliott, Larry. "Does Javier Milei's Dollarisation Plan for Argentina Make Any Economic Sense?" the Guardian. The Guardian, November 20, 2023.

<https://www.theguardian.com/world/2023/nov/20/javier-milei-dollar-plan-argentina-economy>.

Fabino, Alexander. "'Argentina's Trump' Javier Milei Doubles down on Most Radical Plan." Newsweek. Newsweek, November 24, 2023.

<https://www.newsweek.com/argentina-president-milei-closes-central-bank-dollarization-plan-1846858>.

Fischer, Stanley. "Ecuador and the IMF -- Address by Stanley Fischer." IMF, May 19, 2000. <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp051900>.

Gabin, Leandro. "Milei's Path to Dollarization: Riddled with Doubts." Americas Quarterly, September 14, 2023.

<https://www.americasquarterly.org/article/mileis-path-to-dollarization-riddled-with-doubts/#:~:te>

xt=BUENOS%20AIRES%20%E2%80%94%20Javier%20Milei's,runaway%20inflation%20that
%20has%20held.

Gabin, Leandro. "Milei's Path to Dollarization: Riddled with Doubts." *Americas Quarterly*, September 14, 2023.

<https://www.americasquarterly.org/article/mileis-path-to-dollarization-riddled-with-doubts/>.

Ghiretti, Hector. "El Ciclo de La Ilusión Y El Desencanto. Políticas Económicas Argentinas de 1880 a Nuestros Días, de Pablo Gerchunoff Y Lucas Llach (2018). Una Lectura En Contexto de Crisis." 2020.

https://www.academia.edu/72441655/El_ciclo_de_la_ilusi%C3%B3n_y_el_desencanto_Pol%C3%ADticas_econ%C3%B3micas_argentinas_de_1880_a_nuestros_d%C3%ADas_de_Pablo_Gerchunoff_y_Lucas_Llach_2018_Una_lectura_en_contexto_de_crisis.

Glover, George. "Dollarization: Why Argentina's Plan to Adopt the Greenback Won't Work." *Business Insider*. Insider, November 22, 2023.

<https://www.businessinsider.com/dollarization-us-dollar-peso-argentina-javier-milei-inflation-recession-economy-2023-11>.

Grainger, James. "Dollars under the Mattress: Argentina's Preferred Way of Saving." *Buenos Aires Times*. *BATimes Newspaper*, March 2020.

<https://www.batimes.com.ar/news/argentina/dollars-under-the-mattress-argentinas-preferred-way-of-saving.phtml>.

Imf.org. “Member Financial Data,” 2023.

<https://www.imf.org/external/np/fin/tad/balmov2.aspx?type=TOTAL>.

International Monetary Fund, and Tomás J. T. Baliño. Current Developments in Monetary and Financial Law, Volume 2. International Monetary Fund, 2003.

<https://www.elibrary.imf.org/display/book/9781589061767/ch030.xml>.

Investopedia. “Countries Using the US Dollar,” 2023.

<https://www.investopedia.com/articles/forex/040915/countries-use-us-dollar.asp#:~:text=In%20a%20dition%20to%20five%20U.S.,%2C%20Marshall%20Islands%2C%20and%20Panama..>

Jacome, Luis I. “The Late 1990s Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization at Work,” n.d.

<https://www.imf.org/external/pubs/ft/wp/2004/wp0412.pdf>.

Juan Pablo Spinetto. “Argentina’s Dollarization Is a ‘Bad Idea’, Top Economists Say.” Bloomberg.com. Bloomberg, September 7, 2023.

<https://www.bloomberg.com/news/articles/2023-09-07/argentina-s-dollarization-is-a-bad-idea-to-p-economists-say#xj4y7vzkg>.

Kulfas, Matias, and Martin Schorr. “Wayback Machine.” web.archive.org, 2003.
<https://web.archive.org/web/20150924020031/http://www.fundacionosde.com.ar/pdf/biblioteca/La%20deuda%20externa%20Argentina.pdf>.

LA NACION. “Cuántos Votos Sacó Sergio Massa En Las Elecciones 2023.” LA NACION, November 20, 2023.
<https://www.lanacion.com.ar/politica/cuantos-votos-saco-sergio-massa-en-las-elecciones-2023-nid19112023/>.

Larrea, Carlos. “The 3rd Annual PECC Finance Conference Institution-Building in a World of Free and Volatile Capital Flows: PECC Perspectives Session I Issues and Challenges of the International Financial Architecture from the Asia-Pacific Perspective Economic and Social Effects of Dollarization in Ecuador,” 2004.
<https://www.pecc.org/resources/finance-1/573-economic-and-social-effects-of-dollarization-in-ecuador/file>.

LatAm Dialogue, and Sonja Rijnen. “Two Decades of the U.S. Dollar: Ecuador’s Experience.” LatAm Dialogue. LatAm Dialogue, November 10, 2020.

<https://www.latamdialogue.org/post/two-decades-of-the-u-s-dollar-ecuador-s-experience>.

LatAm Dialogue. “Two Decades of the U.S. Dollar: Ecuador’s Experience.”

LatAm Dialogue. LatAm Dialogue, November 10, 2020.

<https://www.latamdialogue.org/post/two-decades-of-the-u-s-dollar-ecuador-s-experience>.

Looney, Robert. “Dollarization in Latin America.” Milken Institute Review, 2017.

<https://www.milkenreview.org/articles/dollarization-in-latin-america>.

Macrotrends.net. “Ecuador External Debt 1970-2023,” 2023.

<https://www.macrotrends.net/countries/ECU/ecuador/external-debt-stock>.

Mander, Benedict, and Michael Stott. “Argentina: How IMF’s Biggest Ever Bailout Crumbled under Macri.” @FinancialTimes. Financial Times, September 2, 2019.

<https://www.ft.com/content/5cfe7c34-ca48-11e9-a1f4-3669401ba76f>.

Martínez, Pablo E, and Cecilia Nahón. “The Growth of Debt and the Debt of Growth: Lessons from the Case of Argentina.” Journal of Law and Society 44, no. 1 (February 3, 2017): 99–122. <https://doi.org/10.1111/jols.12016>.

Miller, Jeffrey, Charles Wallace, and Adrienne Decker. "Member Spotlight." ACM SIGCSE Bulletin 54, no. 2 (April 2022): 8–11. <https://doi.org/10.1145/3538522.3538530>.

Muñoz Pederzoli, Ian. "¿Por Qué No Funcionó La Ley de Convertibilidad?" iProfesional, 2023.
<https://www.iprofesional.com/economia/387535-por-que-no-funciono-la-ley-de-convertibilidad>.

News, BBC. "Fernando de La Rúa, Argentine Ex-President, Dies at 81." Bbc.com. BBC News, July 9, 2019. <https://www.bbc.com/news/world-latin-america-48924085>.

Nicas, Jack, Natalie Alcoba, and Lucia Cholakian Herrera. "Argentina, Donde Las Casas Se Compran Con Fajos de Billetes de 100 Dólares." The New York Times, 2023.
<https://www.nytimes.com/es/2023/11/24/espanol/argentina-economia-dolarizada-milei.html>.

Olivera, Francisco. "Triste Récord: Más de La Mitad de La Población Del País Ya Vive En Un Hogar Con Ayuda Social." LA NACION. LA NACION, June 11, 2023.
<https://www.lanacion.com.ar/economia/triste-record-mas-de-la-mitad-de-la-poblacion-del-pais-y-a-vive-en-un-hogar-con-ayuda-social-nid11062023/#:~:text=En%202021%20se%20atenu%C3%B3%20a,de%20asistencia%20econ%C3%B3mica%20del%20Estado..>

O'Neill, Shannon. "Why Latin America Lost at Globalization—and How It Can Win Now." Council on Foreign Relations, 2022.

<https://www.cfr.org/article/why-latin-america-lost-globalization-and-how-it-can-win-now#:~:text=There%20are%20lots%20of%20reasons,knowledge%20within%20Latin%20America%20itself>
..

Paul, Fernanda. "Cómo Salió Argentina de La 'Hiperinflación' Hace 30 Años (Y Cuán Factible Sería Recurrir a La Misma Solución Hoy Día) - BBC News Mundo." BBC News Mundo. BBC News Mundo, March 24, 2023.

<https://www.bbc.com/mundo/noticias-america-latina-65027059>.

Peaceagreements.org. "Peace Agreements. University of Edinburgh.," 2023.
<https://www.peaceagreements.org/view/conflict/69/Cenepa+War+%281995%29>.

Quispe-Agnoli, Myriam. "Costs and Benefits of Dollarization," 2002.
https://www.atlantafed.org/-/media/Documents/americancenter/ac_research/quispedollarizationrevised.pdf.

Rathi, Anusha. "Argentina's Endless Economic Crisis Sends Inflation Soaring." Foreign Policy. Foreign Policy, August 15, 2022.

<https://foreignpolicy.com/2022/08/15/argentina-imf-debt-massa-fernandez/>.

Rosario, Jorgelina. “Argentina’s Milei Pitched Dollarization ‘Models’ in IMF Meet - Sources.” Reuters, August 18, 2023.
<https://www.reuters.com/markets/argentinas-milei-meet-with-imf-representatives-after-market-turmoil-2023-08-18/>.

Savage, Rachel. “What Is a BRICS Currency and Is the U.S. Dollar in Trouble?” Reuters, August 24, 2023.
<https://www.reuters.com/markets/currencies/what-is-brics-currency-could-one-be-adopted-2023-08-23/>.

Sheppard, Hale. “GUINEA PIG of LATIN AMERICA,” 2000.
<https://mckinneylaw.iu.edu/iiclr/pdf/vol11p79.pdf>.

Silva, Roberto, Martin Campbell, and Agustina Ranieri. “Lessons from Argentina’s Default on Its International Sovereign Debt.” Latinlawyer.com, 2023.
<https://latinlawyer.com/guide/the-guide-restructuring/third-edition/article/lessons-argentinas-default-its-international-sovereign-debt#:~:text=Introduction-,By%20the%20end%20of%202019%20C%20Argentina%20owed%20about%20US%24323,US%20dollars%20and%20Argentine%20pe>
sos..

Stewart, Emily. “What Argentina’s Economy and Inflation Tell Us about the Current Banking Crisis.” Vox. Vox, March 23, 2023.
<https://www.vox.com/money/2023/3/23/23649926/argentina-economy-explained-dollar-blue-inflation>.

Verduga, Luis. “Ecuador’s Dollarization Will Have Negative Effects on Its Development Prospects,” 2022.
<https://www.saintpeters.edu/wp-content/uploads/blogs.dir/270/files/2022/12/Luis-Verduga-The-Effect-of-Dollarization-on-Ecuador's-Development.pdf>.

Wang, Sam. “Examining the Effects of Dollarization on Ecuador.” COHA, July 26, 2016. <https://coha.org/examining-the-effects-of-dollarization-on-ecuador/>.

White, Lawrence. “Dollarization Is Hurting Ecuador? Don’t Believe It.” Cato Institute, December 2, 2015.
<https://www.cato.org/blog/dollarization-hurting-ecuador-dont-believe-it>.

Bcra.gob.ar. “Billetes Y Monedas | Emisiones Anteriores,” 2020.
[https://www.bcra.gob.ar/MediosPago/Emisiones_anteriores.asp#:~:text=05%2F11%2F1881-,Peso,\(%241\)%20por%20cada%20d%C3%B3lar..](https://www.bcra.gob.ar/MediosPago/Emisiones_anteriores.asp#:~:text=05%2F11%2F1881-,Peso,(%241)%20por%20cada%20d%C3%B3lar..)

Rapetti, Martín. “Dollarization Is a Very Bad Idea.” Buenos Aires Herald. Buenos Aires Herald, August 30, 2023.

<https://buenosairesherald.com/economics/analysis-dollarization-is-a-very-bad-idea#:~:text=We%20economists%20have%20written%20much,a%20greater%20propensity%20for%20crisis..>

“US Dollar to Argentine Peso Spot Exchange Rates for 2019.” n.d.

[Www.exchangerates.org.uk](http://www.exchangerates.org.uk). Accessed December 13, 2023.

<https://www.exchangerates.org.uk/USD-ARS-spot-exchange-rates-history-2019.html>.

“Drivers of Financial Dollarization and the Role of Prudential Policies.” IMF Staff

Country Reports 2023, no. 179 (May 23, 2023).

<https://doi.org/10.5089/9798400244346.002.A002>.

“Ecuador - Ecuador from the Late 20th Century | Britannica.” In Encyclopædia

Britannica, 2023.

<https://www.britannica.com/place/Ecuador/Ecuador-from-the-late-20th-century>.