



Latin America Ditching US Dollars? Following El Salvador, Other Latin American Countries Plan to Make Bitcoin Legal Tender

Description

Did El Salvador just add another nail in the coffin for the US dollar? El Salvador just made Bitcoin the country's legal tender that can possibly bypass the future use of the US dollar. The bold move must have made the US government and the Federal Reserve bank very nervous at this point in time since many countries around the world have been dumping US dollars including China, Russia and Iran.

Reuters headlined with the latest news on El Salvador becoming the first country to adopt the bitcoin, 'In a world first, El Salvador makes bitcoin legal tender' reported that "El Salvador has become the first country in the world to adopt bitcoin as legal tender after Congress approved President Nayib Bukele's proposal to embrace the cryptocurrency." Bukele said "It will bring financial inclusion, investment, tourism, innovation and economic development for our country." Bukele's plan has inspired other Latin American countries including Paraguay who is also in pursuit of making bitcoin legal tender. According to zycrpto.com, a news source that reports on crypto currency trends said that Paraguay will most likely join the bitcoin revolution following El Salvador's lead. On June 5th, Bukele's first announced that he will submit a bill to make bitcoin legal tender in the impoverished country:

In a videotaped announcement on June 5, El Salvador's president Nayib Bukele stated that he was planning to submit a bill next week to make bitcoin legal tender. The founder of Lightning Network-powered bitcoin payments firm Strike, Jack Mallers, revealed that he had been working with El Salvador to implement a plan to help the nation adopt the bitcoin standard. If Bukele's plan is approved by Congress, the Central American country will be the first in the world to formally adopt the OG crypto

And the El Salvadorian congress came through and approved the bill. Bukele believes that Bitcoin can change El Salvador for the better since "he indicated that 70% of the population does not have bank accounts and is working in the informal sector. In other words, Bukele expects bitcoin to improve the life and future of millions of Salvadorians." As Bitcoin becomes more mainstream, other Latin American countries such as Paraguay and others will surely follow. According to the article, The Deputy of the Nation, Carlos Antonio Rejala Helman had tweeted an announcement that Paraguay "will be launching a major project related to bitcoin and PayPal." Helman has declared "as I was saying a long time ago, our country needs to advance hand in hand with the new generation. The moment has come, our moment. This week we start with an important project to innovate Paraguay in front of the world!"

Similar to gold, bitcoin can be used as a “*hedge against uncertainty*”.

The crypto rally of 2017 was primarily led by retail investors as institutional investors stayed on the sidelines since they didn't have faith in the bright future of cryptocurrency. The bull market of this year has shown that bitcoin is a viable hedge against uncertainty just like gold and that it is not going anywhere. With this realization, several institutional investors dipped their toes into the bitcoin market. This includes leading publicly traded firms like MicroStrategy, Square, and Tesla that added bitcoin to their balance sheets as an alternative to cash

El Salvador and Paraguay's move into the crypto space is just the start of something that can spread like fire throughout Latin America. The article points out the fact that the US Federal Reserve continues to print money at unprecedented levels that will eventually lead to inflation, “*Now, countries like El Salvador and Paraguay have accepted the fact that hard-capped, decentralized bitcoin could not only bolster their economies but also shield them from unprecedented money printing.*” El Salvador wants to free themselves from the US dollar since “*the Fed's actions could be buoying the economy of the U.S. but they are certainly harmful to small dollar-dominated countries like El Salvador.*” The idea is to grow their economy and not rely on the world's reserve currency:

Bitcoin gives unbanked societies the chance to participate in the global economy and escape the shackles of the greenback, part of the reason why it's gaining popularity in Latin America. All in all, El Salvador and Paraguay's gravitation toward the top cryptocurrency is a mighty step towards mainstream adoption

From El Salvador to Ecuador: The Adoption of the US Dollar

Historically, El Salvador has experienced numerous military interventions by the US since the end of the Spanish-American War. The U.S. has supported one dictatorship after another which has led El Salvador to become a living hell with high crime rates and extreme poverty. In 2001, the U.S. intervened in El Salvador once again, this time with the U.S. dollar. Washington and the *International Monetary Fund*(IMF) had supported El Salvador's move with open arms. *The New York Times* reported the development at the time ‘*INTERNATIONAL BUSINESS; U.S. and I.M.F. Welcome Salvador's Adoption of Dollar*’ which stated that “*El Salvador's decision to adopt the United States dollar as its currency won immediate support from the United States Treasury Department and the International Monetary Fund yesterday, reflecting a growing trend in Latin America to embrace the dollar as official tender.*” Well that was no surprise that Washington and the IMF supported El Salvador's transition to accept the dollar as it's legal tender. But there were some debates among economists on how it would affect El Salvador's economy. The report said that “*some economists say such moves enhance financial stability and may help attract foreign business because investors are reassured of getting their money out without suffering a foreign exchange loss.*” Others suggested otherwise:

Critics say that so-called dollarization makes little sense because it turns over an important tool used in macro-economic management to the Federal Reserve of the United States. The Fed uses its control of interest rates to stimulate or cool the American economy, but does not directly consider the needs of other nations that use the dollar

The Treasury Secretary at the time, Lawrence Summers said in a statement that “*Combined with a strong economic policy framework, this step should help contribute to financial stability and economic growth in El Salvador and its further integration into the global economy.*”

Several years later, the mainstream-media changed its views, well, sort of. *The Los Angeles Times* 'In El Salvador, the dollar is no panacea' said that "this Central American nation adopted the greenback as its official currency in 2001, thinking the move would spur economic growth. But the ubiquitous "\$" sign on shoe racks and vegetable bins hasn't been the magic elixir many had hoped. And it's been a particular disappointment among low-income shoppers and vendors here." The LA Times used a potato peddler by the name of Jessica Janette as an example of how the US dollar has been a failure in El Salvador. The report describes Jessica's struggle:

Potato peddler Jessica Janette said she used to sell 100 pounds of spuds daily from the dirt-encrusted pile in her tiny stall. Now, she's lucky to move that much a week. The switch from El Salvador's former currency, the colon, to the dollar drove up the prices of many staples as producers and merchants rounded up to the nearest nickel, dime or quarter. Many workers' salaries never caught up. Janette's customers are pinching pennies as tightly as she is. "Life is harder now because I can't make ends meet on the little I earn," said the barefoot 27-year-old single mother. "The dollar is a curse"

In El Salvador, there were those in favor of dollarization and those that were against it. "Critics of El Salvador's currency change say it's a prime example of how dollarization's costs can outweigh its benefits if policymakers don't follow through with other measures to strengthen the economy." According to Silvia Borzutzky, a professor of political science and international relations at Carnegie Mellon University who is critical of the dollarization process of El Salvador's economy claimed that "The poorer you are, the worse it is," Borzutzky said that "the policy has had extremely negative effects on the lowest-income groups without doing much to help the overall economy." On the opposing view, the report said that "Many in El Salvador's business and financial circles as well as the conservative Arena party supported the move." and that "they touted it as a way to bulletproof the banking system, lower inflation, reduce interest rates and ignite economic growth by attracting more foreign investment." The move was also political because "they also saw it as a way to keep monetary policy out of the hands of the leftist FMLN party, which some feared was gaining political ground." El Salvador was not the only country in Latin America to adopt the US dollar as the report also mentioned Ecuador's dollarization process of its economy in 2000:

Some experts say an extreme measure like dollarization wasn't necessary. Unlike Ecuador, which sought refuge in the dollar to quell hyperinflation, El Salvador's inflation the year before dollarization was 4.3%, modest by Latin American standards

Even in the case of Ecuador, dollarization has taking a toll on its citizens according to an analysis published in 2016 titled 'Examining the Effects of Dollarization on Ecuador' by Sam Wang, a research associate at the Council of Hemispheric Affairs (COHA) which states that dollarization has caused hardships among Ecuadorian citizens. "Every day since 2015, thousands of Ecuadorians have crossed the bridge from Tulcán, Ecuador to the border town of Ipiales, Colombia to go shopping. Goods they purchase in Colombia include food, cars, television, and even bulldogs" according to the analysis. Former Ecuadorian President Raphael Correa who issued a "call of conscience" and to "offer support to the national production by buying Ecuadorian products." Wang continued "In addition to Panama and El Salvador, Ecuador is one of the Latin American countries that uses the U.S. dollar as the only official currency. Ecuador does not print its own bank notes." With the U.S. dollar appreciating against other currencies throughout Latin America, Ecuador's goods became more expensive over the years:

In recent years, the U.S. dollar has continuously appreciated against other currencies in Latin America, making the price of goods in Ecuador higher than that in neighboring Colombia and Peru. Ecuador

abandoned its old currency, the sucre, during a severe economic crisis in 2000 and has been using U.S. dollars ever since.

With the appreciation of the U.S. dollar, doubts have emerged regarding the fate of dollarization. A recent Wall Street Journal article stated that Ecuador “has the misfortune to be an oil producer with a ‘dollarized’ economy that uses the U.S. currency as legal tender.” The appreciation of the U.S. dollar against other currencies has decreased the net exports of non-oil commodities from Ecuador, which, coupled with the fall in oil prices, has constrained the country’s potential for economic growth

Correa pushed for an electronic currency at the time for domestic use as a way to further “de-dollarize” the Ecuadorian economy:

The government of Ecuador has also cast doubt on the success of dollarization; as early as 2014, Correa said that “dollarization was a bad idea.” In the same year, he established a parallel electronic currency for domestic use, which some believe is the first step of de-dollarizing the economy

Maybe Ecuador will follow El Salvador’s lead in making crypto currencies legal tender to avoid using the US dollar if of course, another Raphael Correa gets elected to office. In an interesting turn of events, other countries such as Panama and Brazil are also contemplating the use of bitcoins for their economies as well.

Whether bitcoin becomes mainstream or not, Washington has used its dollar hegemony by imposing harsh financial sanctions on their adversaries for far too long. El Salvador has surely inspired Latin America and perhaps the rest of the world to follow suit. Although it’s only a first step, but it’s a step in the right direction that can lead to economic freedom and distance itself away from Washington’s grip as its dollar hegemony is slowly but surely collapsing under its own weight.

by Timothy Alexander Guzman

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