

## ARTICLE

# THE INTERNATIONAL MONETARY STABILITY ACT: RECOGNIZING THE “RIPENESS” OF THIS ECONOMIC LEGISLATION’S BENEFITS FOR THE UNITED STATES AND MEXICO

HALE E. SHEPPARD\*

I. Introduction .....	376
II. Dollarization Defined.....	378
III. Main Provisions of the Monetary Act .....	382
IV. Arguments in Support of the Monetary Act.....	385
A. Potential Disadvantages of the Monetary Act for Mexico .....	385
1. Mexico May Lose Seigniorage Revenues .....	386
2. Central Bank as Lender-of-Last-Resort .....	387
3. Exchange-Rate Flexibility and Economic Sovereignty.....	389
4. Social Costs .....	394
5. Ancillary Costs .....	395
B. <i>Advantages of the Monetary Act for Mexico</i> .....	395
1. The U.S. Federal Reserve Must Safeguard The Mexican Economy.....	400
2. The Monetary Act May Tarnish The U.S. Image Abroad .....	403
3. The United States Will Forfeit Seigniorage Revenue .....	404
4. Obligatory Bank Supervision By The United States .....	405
5. The Fed Must Serve As Lender-of-Last-Resort .....	406
C. <i>Advantages for the United States due to Monetary Act</i> .....	407
1. The Monetary Act Concords with the Concept of Free Trade.....	408
2. The Monetary Act’s Effect On The Euro-Dollar Rivalry .....	412
3. Mexico Is a Test Case for the Monetary Act.....	413
4. Strengthen U.S. Investment in and Trade with Mexico .....	417
5. Eventual Dollarization of Canada .....	418
6. Fortification of the Mexican Economy .....	420
7.Support for Existing U.S. Foreign Policy .....	422
8. Ripeness of the Monetary Act.....	424

---

\* Hale E. Sheppard (B.S., Journalism, with distinction, M.A., Latin American Studies, with honors, J.D. - University of Kansas; Magister (LL.M. equivalent) in International Law, with highest distinction - University of Chile) works in the Americas Practice Group of Haynes and Boone, LLP, a full-service law firm with offices in Texas, Washington D.C. and Mexico.

## I. INTRODUCTION

To date, while a few groups actively debate the virtues of sanctioning the use of the dollar by other nations, the prevailing attitude in the United States toward this issue could most accurately be described as ambivalent.<sup>1</sup> Exemplary of such nonchalance are publications by certain think tanks, which explain that “U.S. views are generally agnostic [because] no one really knows whether the United States would be better off or worse off if some other countries switched to using the dollar in their financial systems.”<sup>2</sup> Unfortunately, this widespread opinion held by both the public-at-large and the majority of politicians in Washington is not founded on facts and vigorous, open debate. Instead, disinformation and apocalyptic predictions have been utilized to impede U.S. support of dollarization in, among other areas, Latin America.

Despite these attempts to obscure the truth, certain experts have recognized the true benefits and inevitability of dollarization of Latin American countries. According to these experts, while the United States should not actively urge other countries to make this determination, “given that the U.S. has an *enlightened self-interest* in allowing dollarization, we should certainly remove unnecessary barriers to dollarization.”<sup>3</sup> The primary bar-

---

1. See generally, Ricardo Hausmann, *Should There Be Five Currencies or One Hundred and Five?*, FOREIGN POLICY, Sept. 22, 1999, at 65. As with any polemic issue, opinions of experts regarding the appropriate strategy to be utilized by the United States under the circumstances are diametrically opposed. Based on the information available on this topic, it appears that the only thing on which the experts agree is that they will continue to disagree: “[T]he debate has quickly become polarized: Both sides seem to accept that there can be no middle ground, no half-way arrangement. . .” *Id.* at 66.

2. Roger M. Kubarych, *Introduction to “The Benefits and Costs of Moving Toward Dollarization in North America”*, LOOKING AHEAD, Sept. 1999, at 3, 3. See also *International Monetary Stability Act: Hearing on S. Res. 1879 Before the S. Subcomm. on Economic Policy*, (Feb. 8, 2000) (statement of the Honorable Edwin M. Truman, Asst. Sec. for Int’l Affs., U.S. Treasury) available at [http://www.banking.senate.gov/00\\_02hrg/020800/truman.htm](http://www.banking.senate.gov/00_02hrg/020800/truman.htm) (last visited Mar. 8, 2001) [hereinafter *Hearing/Truman Statement*]. Officials at the U.S. Treasury Department refused to offer a public opinion on the Monetary Act during congressional debates. As noted in Truman’s discourse, “we do not have a view on whether dollarization is advisable in general.” *Id.*

3. *Official Dollarization in Latin America: Hearing on Monetary Stability in Latin America Before the Domestic and Int’l Monetary Policy Subcomm. of the House Banking*

rier—how to equitably share the seigniorage revenue earned by the United States upon printing the dollars needed to replace the local currency in the dollarizing nation—is resolved by the International Monetary Stability Act (the “*Monetary Act*”). By establishing this seigniorage-sharing mechanism, the Monetary Act is designed to induce dollarization at a time when a country enjoys both political and economic stability, thereby avoiding unilateral dollarization by nations in dire straits, which causes innumerable problems for the United States. As one economic expert explains, “[t]he dollarization issue is much too important for the U.S. to stand by passively. If the U.S. refuses to take a position, dollarization will continue to be considered only by countries in crisis, rather than being an option they consider during relatively stable times.”<sup>4</sup> In addition to circumventing potential problems imposed by other countries, the Monetary Act would render numerous direct benefits for the United States, including increased trade with the dollarized nation(s), reduced currency risk for U.S. investors, fortification of the North American Free Trade Agreement, and support for current U.S. foreign policy.<sup>5</sup> While the U.S. government publicly accepted the rationale for the Monetary Act when it was first introduced in 1999, this bill was not enacted then because the presidential administration at that time claimed that such legislation was not “ripe.”<sup>6</sup> While the Monetary Act may have been slightly “green” when originally introduced, due to a number of circumstances that have changed since this time, this legislation is now so ripe that overlooking it again will inevitably generate a spoilage prejudicial to, in particular, the United States and Mexico.

A formidable ally, neighbor and commercial trading partner with the United States for many years, Mexico is now seriously considering adoption of the dollar. As explained in great detail later in this article, successful dollarization of this country would be highly beneficial to the United States and Mexico alike. With

---

and *Financial Services Comm.*, 106<sup>th</sup> Cong. (2000) (statement of Michael Gavin, UBS Warburg, LLC) [hereinafter *Hearing/Gavin Statement*].

4. *The Int’l Monetary Stability Act: Hearing on S. Res. 1879 Before the Subcomm. on Econ. Policy of the Senate Banking Comm.*, 106<sup>th</sup> Cong. (2000) (opening statement of Connie Mack, Subcomm. Chairman).

5. See Connie Mack, *Dollarization Bill Would Export Price Stability*, THE HILL, Apr. 12, 2000, at 36. It is fair for people to question the potential benefits of supporting the bill: “[E]conomic policy is never a matter of altruism, and it’s only fair to ask: Why should the United States seek to share its currency with the rest of the world?” *Id.*

6. See generally S. REP. NO. 106-354, (2000).

such a strong economy and large population, however, Mexico is reluctant to dollarize without a seigniorage-sharing accord. For this reason, the Monetary Act now epitomizes timeliness and, therefore, should be enacted as soon as possible. Fortunately, although the original sponsor of this bill has retired, other politicians have expressed an interest in reintroducing the Monetary Act during the 108<sup>th</sup> Congress.<sup>7</sup>

This article advocating the enactment of the Monetary Act to, among other things, trigger the dollarization of Mexico is organized in the following manner. First, the concept of dollarization in its many forms (*i.e.*, unofficial, semi-official and official) is briefly explained. Next, the second section provides an analysis of the Monetary Act designed to allow nations to share seigniorage revenues derived from printing currency, thereby facilitating dollarization in regions such as Latin America. Subsequently, section three features numerous arguments in favor of dollarization, both for the United States and Mexico. This section, in particular, explains the not-so-well-known advantages of dollarization for these two nations, while revealing the shortcomings of the arguments typically embraced by dollarization opponents. In the fourth section, this article argues that, unlike at the time of its initial introduction, changed circumstances in Mexico make the Monetary Act "ripe" for enactment. In doing so, this section identifies the major Mexican groups engaged in the dollarization debate, uncovers the weaknesses of the arguments used by the government to postpone the dollarization decision, and suggests that enactment of the Monetary Act could suffice to persuade Mexico's new president Vicente Fox to seriously consider dollarizing his nation within a short time. Based on the irrefutable benefits of the Monetary Act for all countries involved, this article concludes that this bill should be approved at the earliest opportunity.

## II. DOLLARIZATION DEFINED

Until recently, the concept of dollarization received minimal attention because, according to the traditional view, it was

---

7. Audio Tape: Telephone Interview with Steve Patterson, Staff Director for the Senate Econ. Policy Subcommittee, Office of Sen. James Bunning (Apr. 26, 2001) (on file with author).

deemed a “political impossibility.”<sup>8</sup> In recent years, however, several factors have created an interest in dollarization, including (i) in Europe, the introduction of the common currency known as the euro, (ii) in Latin America, Argentina’s relatively successful experience with the use of the dollar and the currency-board type system implemented in 1991, and (iii) worldwide, the repercussions generated by the financial crises in Mexico (1994-1995), East Asia (1997-1998), Russia (1998) and Brazil (1998-1999).<sup>9</sup>

In broad terms, dollarization can be divided into three main categories. First, Unofficial Dollarization occurs when residents of a country, in the absence of formal government approval of the practice, retain a large share of financial wealth in assets denominated in dollars. This currency retention comes in a variety of forms such as (i) dollar-based bonds or other noncash assets, (ii) dollars in the form of cash, (iii) dollar deposits in domestic banks, or (iv) dollar deposits in foreign banks. Despite attempts by some governments to conceal such information, Unofficial Dollarization is significant in many developing countries. In fact, according to a study conducted by the International Monetary Fund, in 1995 over thirty percent of these countries registered “high” levels of dollarization.<sup>10</sup> Such incidence of Unofficial Dollarization did not occur instantly; rather, it is the result of a three-step process.<sup>11</sup> Unofficial Dollarization is ordinarily a gradual progression that may, though, be accelerated by an increase in economic instability of a nation. In other words, as “the probability of devaluation rises . . . more citizens shun the national currency in favor of the historically more stable US dol-

---

8. See STAFF OF S. J. ECON. COMM., 106TH CONG., REPORT ON BASICS OF DOLLARIZATION (Comm. Print 2000) [hereinafter BASICS OF DOLLARIZATION] (expressing the views of the author, Kurt Schuler, Senior Economist to the Comm. Chairman).

9. Zeljko Bogetic, *Official or Full Dollarization: Current Experience and Issues*, CATO JOURNAL, FALL 2000, at 179, 180, available at <http://users.erols.com/kurrency/bogdllr.html> (last visited Apr. 21, 2000).

10. See BASICS OF DOLLARIZATION, *supra* note 8. The Federal Reserve System estimates that foreigners hold between fifty-five and seventy percent (approximately 300 billion) of all dollars currently in circulation. BASICS OF DOLLARIZATION, *supra* note 8.

11. See BASICS OF DOLLARIZATION, *supra* note 8. During the first stage, “asset substitution,” residents hold foreign bonds and deposits abroad to store value for protection against loss of wealth through inflation in domestic currency or outright confiscations. *Id.* “Currency substitution,” the second stage, entails residents holding large amounts of foreign currency in domestic banks, if legally permitted. During this period, while everyday expenses (wages, taxes, groceries, bills, etc.) are still paid in domestic currency, major items are often handled in foreign currency. *Id.* In the final stage, residents actually begin to think in terms of the foreign currency and local prices become indexed to the exchange rate. *Id.*

lar.<sup>12</sup>

The second category is known as Semi-Official Dollarization, which is another name for a bi-monetary system wherein two distinct currencies (*i.e.*, the dollar and the local currency) are both legally recognized and circulate simultaneously. Presently, more than a dozen countries have adopted this financial structure.<sup>13</sup> In these nations, the dollar is considered legal tender and may dominate bank deposits, yet it is still subordinate to the domestic currency in terms of paying wages, taxes and everyday expenses. Similar to countries with Unofficial Dollarization, these nations retain their central banks and, therefore, are able to conduct their own monetary policy.

The third category, Official Dollarization, contemplates an absolute monetary union between at least two nations. In such cases, the imported foreign currency (*i.e.*, the dollar) is converted into full legal tender and the former domestic currency, if any, is relegated to a subordinate role.<sup>14</sup> To date, approximately thirty nations comprising nearly 10.5 million persons have adopted this economic structure.<sup>15</sup> The most famous of these is Panama, a country that formally sanctioned the use of the dollar in 1903 and has served as a prototype for many emerging nations.<sup>16</sup> If a

---

12. See Federal Reserve Bank of Atlanta, *Responding to Global Crises: Dollarization in Latin America*, ECON SOUTH (Second Quarter 1999) available at [http://www.frbatlanta.org/publica/econ\\_south/1999/q2/index.html](http://www.frbatlanta.org/publica/econ_south/1999/q2/index.html) (last visited Apr. 21, 2000) [hereinafter *Responding to Global Crises*].

13. See generally Bogetic, *supra* note 9, at 185. Among those nations with bi-monetary systems are the Bahamas, Bhutan, Bosnia, Cambodia, Haiti, Isle of Man, Lao, Lesotho, Liberia, Luxembourg, Namibia and Tajikistan. See *id.* at 186-87.

14. *Id.*; see, e.g., Ley Fundamental para la Transformación Económica del Ecuador, Ley No. 4, Cap. I, Art. 1, R.O. Supp., 13 de Marzo del 2000 [The Fundamental Law for the Economic Transformation of Ecuador, ch. 1, art. 1 (2000)]. In Ecuador, for example, although the dollar is used as the principal currency, the Ecuadorian currency known as *suces* will continue to be acceptable in coin form for use in small purchases.

15. See BASICS OF DOLLARIZATION, *supra* note 8. The nations that have Officially Dollarized include Andorra, Caicos Island, Cocos Islands, Cook Islands, Cyprus, Greenland, Guam, Kiribati, Liechtenstein, Marshall Islands, Micronesia, Monaco, Nauru, Niue, Norfolk Islands, Northern Mariana Islands, Palau, Panama, Pitcairn Island, Puerto Rico, Saint Helena, Samoa, San Marino, Tokelau, Turks Island, Tuvalu, Vatican City and the Virgin Islands. *Id.* Since the publication of this article by Schuler, El Salvador and Ecuador have also officially dollarized, thereby raising the total to approximately twenty five million persons. *Id.*

16. See STAFF OF SENATE JOINT ECON. COMM., 105TH CONG., ENCOURAGING OFFICIAL DOLLARIZATION IN EMERGING MARKETS (Comm. Print 1999), available at <http://senate.gov/~jec/dollarization.htm> (last visited April 4, 2000) [hereinafter ENCOURAGING OFFICIAL DOLLARIZATION] (expressing the views of the author, Kurt Schuler, Senior Economist to the Comm. Chairman). Since 1903, Panama has been offi-

country is truly dollarized, in addition to replacing its domestic currency with the dollar, its central bank is essentially abolished. Consequently, the nation's ability to implement an independent monetary policy is also eliminated.<sup>17</sup> Notwithstanding this apparent loss of economic autonomy, according to experts, countries that adopt Official Dollarization and allow full participation by foreign financial institutions in the local market become tightly integrated into large financial markets.<sup>18</sup> Moreover, those nations that are Officially Dollarized become part of a unified currency zone within which prices of similar goods originating in either country are kept within a narrow range. Despite this relative price stability, the Officially Dollarized country loses the ability to respond to economic shocks by altering the exchange rate of its currency, and is obligated to adopt alternative methods to mitigate unexpected financial changes, including (i) fostering flows of capital into or out of the country to offset the shock, (ii) reducing the government budget or (iii) increasing prices and lowering wages.<sup>19</sup>

---

cially dollarized, and no central bank or centralized foreign reserves exist. The national currency (the *balboa*) continues to circulate as coins. *Id.* According to the author, as a result of dollarization, “[d]espite large inflows and outflows of capital, Panama has avoided the booms and busts that have resulted from such flows in other Latin American countries.” *Id.* In addition, the inflation rate between 1971 and 1997 averaged just 3.5 percent, which is lower than the rate in the United States or in any other Latin American nation. *Id.* See also Juan Luis Moreno-Villalaz, *Lessons From the Monetary Experience of Panama: A Dollar Economy with Financial Integration*, CATO JOURNAL, Winter 1999, at 421; see also Ilan Goldfajn & Gino Olivares, *Full Dollarization: The Case of Panama*, in *The Choice of Currency Arrangements in Latin America and the Caribbean* (LCSPR, Economic Management Group ed., 2001), available at [http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/188de6b8142bb478852569540076f3d1/\\$FILE/dollarpan.pdf](http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/188de6b8142bb478852569540076f3d1/$FILE/dollarpan.pdf). last visited (Sep 1, 2001).

17. See ENCOURAGING OFFICIAL DOLLARIZATION, *supra* note 16. The concept of an “independent monetary policy” means that a country has a domestic central bank that, among other things, issues domestic currency. *Id.* Some economic theories suggest that an independent monetary policy allows a country to control interest rates, money supply and exchange rates with the goal of avoiding drastic fluctuations. *Id.* See also Jeff Frieden, *Currency Politics: Dollarization and Other Dilemmas*, DRCLAS NEWS (Harvard University, Cambridge, Mass.), Fall 1999, available at <http://www.fas.harvard.edu/~drclas/pages/tabpages/publications/newsletters/fall99/frieden.html> (last visited Apr. 21, 2000).

18. See BASICS OF DOLLARIZATION, *supra* note 8. In the opinion of Sen. Mack, “[t]he ability to switch dollar funds without currency risk between the domestic economy and the rest of the world tends to minimize the booms and busts that often arise in countries having independent monetary policies and financial systems not well-integrated into the world system.” *Id.*

19. See *id.* Senator Connie Mack acknowledges that absorbing economic shocks without the traditional instrument of choice in Latin America (*i.e.*, exchange-rate modifications) is difficult. According to Mack, “[a] country experiencing ‘real’ economic shock ultimately

This article focuses on official dollarization, a process that will be greatly facilitated by the Monetary Act, which is examined in detail in the following section.

### III. MAIN PROVISIONS OF THE MONETARY ACT

The dollarization initiative of Argentina in the early 1990s prompted widespread debate regarding whether the United States should encourage, discourage or remain neutral toward official dollarization in Latin America. Two such contentious debates occurred in the U.S. Senate Banking Committee, both of which served to convince Senator Connie Mack of Florida that, in light of the circumstances, U.S. support of official dollarization in this region would prove beneficial to all parties involved.<sup>20</sup> Accordingly, on November 8, 1999, Senator Mack introduced the Monetary Act, whose express purpose was “[t]o promote international monetary stability and to share seigniorage with officially dollarized countries.”<sup>21</sup>

In terms of general findings, the Monetary Act is based on the premise that economic stability is a prerequisite for strong long-term growth and heightened standards of living.<sup>22</sup> Many emerging-market countries like those in Latin America, unfortunately, lack this indispensable monetary stability, which has generated economic problems such as financial fragility and volatile inflation and interest rates.<sup>23</sup> In an attempt to overcome these difficulties and foster monetary stability, several Latin American countries have introduced a variety of mechanisms such as fixed exchange rates, crawling pegs, freely floating exchange rates and managed floats.<sup>24</sup> While these efforts have pro-

---

has to adjust by experiencing ‘real’ pain or gain.” *Id.*

20. Dollarization debates were held by (i) the Subcommittee on Economic Policy on and (ii) the Subcommittee on International Trade and Finance on April 22, 1999.

21. Rep. Paul Ryan of Wisconsin introduced a companion bill to the Monetary Act in the House of Representatives (H.R. 3493) on November 18, 1999. Since the Monetary Act was never submitted to a vote during the year of its introduction, Senator Mack sponsored the bill again on February 24, 2000. The former was entitled the International Monetary Stability Act of 1999 and the latter, with little surprise, was called the International Monetary Stability Act of 2000. In this paper, both bills are indiscriminately referred to as the “Monetary Act.”

22. Monetary Act § 2(a)(1) (1999).

23. *See id.* § 2(a)(2).

24. Nancy Neiman Auberach & Aldo Flores-Quiroga, *The Political Economy of Dollarization in Mexico*, in *DOLLARIZATION IN THE AMERICAS?* 1, 4 (James W. Dean et al. eds., 2001). In Mexico, since the economic crisis that plagued this nation in 1976, the govern-



duced temporary periods of economic growth and lower inflation, eventually this initial improvement is followed by severe balance-of-payments problems, drastic devaluations of the local currency and a substantial decrease in international reserves.<sup>25</sup> To eliminate these problems and provide a solution with greater longevity, the Monetary Act establishes the rules and procedures related to the implementation of official dollarization in, among others, Latin American countries such as Mexico.<sup>26</sup>

With respect to benefits for those nations that opt to dollarize in accordance with the Monetary Act, the dividends are multiple. The Monetary Act, for example, is designed to (i) reduce inflation and interest rates to the U.S. levels by importing the monetary stability that a country has failed to achieve independently<sup>27</sup>, (ii) impede Latin American governments from printing domestic currency to finance government programs, thereby cultivating fiscal discipline<sup>28</sup>, and (iii) create more profound financial markets by facilitating the use of the currency that is already employed on a daily basis when conducting financial transactions.<sup>29</sup> Together these changes endeavor to “increase long-term economic growth and raise living standards in emerging market countries,” thereby accomplishing the express purpose of the Monetary Act.<sup>30</sup>

---

ment has introduced all four of these methods to no avail. *See id.* According to the authors, as a result of the recurrent economic-policy failures, “a strong domestic and international demand for Mexico’s adoption of sustainable and credible stabilization measures has therefore surfaced.” *See id.*

25. Monetary Act § 2(a)(3) (1999).

26. Kurt Schuler & Robert Stein, *The Mack Dollarization Plan: An Analysis* 4-5 (March 6, 2000) (paper presented at the Federal Reserve Bank of Dallas conference entitled *Dollarization: A Common Currency for the Americas?*, available at <http://www.dallasfed.org/html/dallas/events/dollarspeech.html> (last visited Feb. 16, 2001)). In the opinion of the authors, one dollarization bill applicable to all countries is preferable to passing a bill for each separate country (*e.g.* Mexico) for the following reasons: (i) one country may manage to negotiate a more favorable deal in terms of percentage of seigniorage to be shared than another, thus causing diplomatic problems, (ii) a dollarization bill on a particular country would inevitably become a target for all issues related to that country, thereby impeding progress and triggering debate on impertinent issues, (iii) if a country declared that its dollarization was approved contingent upon the enactment of an appropriate law in the United States, the uncertainty caused by delays by the US legislature could destabilize such country’s financial markets, and (iv) separate bilateral negotiations would require enormous amounts of time. *Id.*

27. Monetary Act § 2(a)(6) (1999).

28. *See id.* § 2(a)(7).

29. *See id.* § 2(a)(8).

30. *See id.* § 2(a)(9).

Likewise, the Monetary Act declares that the facilitation of official dollarization in other nations would prove advantageous for the United States for several reasons. First, by increasing trade with and investment in the dollarized nations, the resulting economic growth would allow a decrease in the need for foreign assistance from the United States, a habitual benefactor to emerging-market economies.<sup>31</sup> In other words, by helping Latin American nations to strengthen and stabilize their economies vis-a-vis dollarization, the need for U.S. taxpayers to bail out these countries from currency-related dilemmas will be drastically reduced.<sup>32</sup> Second, dollarization is designed to spur economic growth and enhance the purchasing power of Latin American consumers, thereby creating more fruitful markets for the sale of U.S. goods. Third, encouraging official dollarization would supplement continuing efforts by the United States to fortify the international financial architecture.<sup>33</sup>

Regarding the possibility of additional responsibilities for the United States as a consequence of facilitating official dollarization, the Monetary Act explicitly clarifies that the U.S. role will be quite limited. The Monetary Act provides, in particular, that the U.S. Federal Reserve System will not be obligated to act as the lender-of-last-resort to the dollarized countries, to consider the economic conditions of dollarized countries when determining monetary policy, or to supervise the financial institutions in dollarized countries.<sup>34</sup>

Procedurally, the Monetary Act establishes that the US Secretary of the Treasury may, at his/her discretion, certify a country as officially dollarized after evaluating a number of factors, including whether the applicant has (a) stopped issuing local currency, (b) destroyed all materials used in producing the local currency, (c) eliminated a substantial portion of the local currency still in circulation, (d) formally terminated the local currency as

---

31. See *id.* § 2(a)(10).

32. See S. REP. NO. 106-354 (2000).

33. Monetary Act § 2(a)(14) (1999). See also *Reforming the International Financial Architecture - Progress Through 2000*, IMF ISSUES BRIEF (International Monetary Fund, New York, N.Y.), Mar. 9, 2001, available at <http://www.imf.org/external/np/exr/ib/2001/030901.htm>, (last visited July 28, 2001). This report indicates that after the financial disasters in the 1990s, the international community of which the United States forms a part has been implementing a policy framework designed to "make crises less frequent and less painful in the future." *Id.*

34. Monetary Act § 2(b) (1999).

legal tender, (e) recognized the US dollar as sole legal tender, (f) stopped accepting local currency, except in exchange for dollars, (g) significantly redenominated the country's prices, assets and liabilities in US dollars, (h) opened its banking system to foreign competition or complied with international banking standards, and (i) consulted the US Secretary of the Treasury to determine whether the nation is a "good candidate" for official dollarization.<sup>35</sup> While these certification criteria may appear innocuous and unintrusive at first glance, the broad discretion granted to the U.S. Secretary of the Treasury coupled with his/her ability to revoke certification if the conditions suitable for dollarization cease to exist reveal the Monetary Act's reticence to relinquish any real control to the dollarizing nations. In the words of one commentator, "[t]he Secretary's latitude should encourage countries interested in official dollarization to cooperate fully with the United States."<sup>36</sup>

Once certified, the actual dollarization process would occur in the following manner. The country desirous of dollarizing would have its central bank take the assets that back its local currency (*e.g.* securities, gold, bonds, etc.) and convert them into U.S. Treasury securities in the international financial markets. The central bank would then use the U.S. Treasury securities to literally buy dollars from the U.S. Federal Reserve. As a final step, the country would utilize the newly-acquired dollars to repurchase and then permanently retire the local currency. If the country manages to remain dollarized for a minimum of ten years, the Monetary Act sets forth a formula by which such country can obtain payments to rebate up to eighty five percent of the seigniorage earned by the United States during the ten year period.<sup>37</sup>

#### IV. ARGUMENTS IN SUPPORT OF THE MONETARY ACT

##### A. Potential Disadvantages of the Monetary Act for Mexico

While this article advocates the adoption of the Monetary

---

35. *Id.* § 3.

36. *See* S. REP. NO. 106-354 (2000).

37. Monetary Act § 4 (1999).

Act to, *inter alia*, foment dollarization in Mexico, in order to fully develop this proposition it is necessary to recognize the potential negative ramifications that such action could trigger in this Latin American nation. In the words of one expert, although dollarization “seems almost too good to be true . . . there are several hitches,” the majority of which are addressed below.<sup>38</sup> As this article will demonstrate, at first glance each argument in opposition to dollarization appears tenable. When subjected to intense scrutiny, however, the credibility of each assertion is severely undermined.<sup>39</sup>

### 1. Mexico May Lose Seigniorage Revenues

The concept of seigniorage may be defined as the revenue that a country derives from issuing its currency, *i.e.*, the difference between the cost of putting money into circulation and the value of the goods such money will buy. For instance, in the United States, a one dollar bill costs approximately three cents to print, yet the government can use it to buy one dollar worth of goods. Thus, if the bill circulates indefinitely, the seigniorage earned is ninety seven cents. In addition to this initial economic gain, when persons hold dollars, they create seigniorage for the U.S. government in the sense that such government is not obligated to pay interest to the holder, as it would with a government bond or other interest-bearing instrument. Possessing dollar bills, therefore, is functionally equivalent to granting the U.S. government an interest-free loan.<sup>40</sup>

In the case of Mexico, the cost of introducing dollars can be viewed in one of two ways. On one hand, the expense of initially obtaining the dollar-denominated bills and coins necessary to replace the *peso* in circulation may be considered a one-time “stock cost.” On the other hand, this expense could be characterized as a “flow cost,” or a continual loss of seigniorage each year. Irre-

---

38. Hausmann, *Five Currencies*, *supra* note 1, at 76.

39. Rudi Dornbusch, *Fewer Monies, Better Monies*, 91 AM. ECON. REV. 238, 238-242 (2001). In reference to the arguments against dollarization, this author remains unconvinced, stating that “[o]n the surface, each argument is persuasive; [but] on closer scrutiny none really is.” *Id.*

40. See ENCOURAGING OFFICIAL DOLLARIZATION IN EMERGING MARKETS, *supra* note 16. The Federal Reserve Board estimates that foreigners now hold between fifty-five to seventy percent of the total dollars, thereby providing the U.S. government approximately \$15 billion per year in seigniorage. *Id.*

spective of its categorization, according to some experts, the seigniorage issue should not constitute a significant obstacle to dollarization in Mexico for three main reasons. First, despite its population of approximately one hundred million and a sizable economy, the revenue that the Mexican government is really in jeopardy of losing by not printing currency locally is minimal.<sup>41</sup> Second, any loss of seigniorage incurred by Mexico could be mitigated by the Monetary Act, whereby Mexico could receive rebates of up to eighty five percent of the seigniorage. Third, the seigniorage revenue forsaken by Mexico is, in effect, a minuscule price to pay for the benefits that the monetary stability from dollarization would generate. In the words of one Latin American financial wizard, “[t]he seigniorage paid to the United States would be the price of the services of a stable currency.”<sup>42</sup>

## 2. Central Bank as Lender-of-Last-Resort

Historically, in times of extreme financial pressures, the central banks throughout Latin America have attempted to meet the liquidity demands of local banks and other financial institutions by providing loans predicated on the printing of additional currency. At such times, the central bank acts as the “lender-of-last resort” since, amid such desperate circumstances, other potential lenders traditionally refuse to offer swift assistance. As explained previously, true dollarization entails the eradication of the central bank which, in turn, eliminates the government’s capacity to create new currency in times of dire need.<sup>43</sup>

41. See Hausmann, *Five Currencies*, *supra* note 1, at 76. Statistics indicate that seigniorage in most countries accounts for only five percent of the Gross Domestic Product. See *id.* Accordingly, Hausmann suggests that “this is not a huge amount, and the benefits of adopting a supranational currency may well exceed the costs.” See *id.*; see also CENTRAL INTELLIGENCE AGENCY, *WORLD FACTBOOK*, (2000), available at <http://www.cia.gov/cia/publications/factbook/geos/mx.html#Econ> (last visited Apr. 18, 2001) [hereinafter *WORLD FACTBOOK*]. In 2000, Mexico’s GDP was approximately \$865 billion. *Id.*

42. See *Official Dollarization in Emerging-Market Countries: Hearing Before the Senate Subcomm. on Econ. Policy and the Subcomm. on Int’l Trade and Fin. of the Senate Banking Comm.*, 105<sup>th</sup> Cong. (1999) (testimony of Manuel E. Hinds, Former Minister of Fin., El Salvador) [hereinafter *Hearing/Hinds Testimony*].

43. Andrés Velasco, UNITED NATIONS CONFERENCE ON TRADE AND DEV., EXCHANGE-RATE POLICIES FOR DEVELOPING COUNTRIES: WHAT HAVE WE LEARNED? WHAT DO WE STILL NOT KNOW?, at 4-10, U.N. Doc. UNCTAD/GDS/MDPB/G24/5 (2000). The lender-of-last-resort as the institution prepared to provide instant credit to local banks in the event that they experience an unanticipated demand for liquidity, such as in the case of a “bank run,” wherein those possessing a significant amount of a particular bank’s funds decide to

It is arguable that abolishing the central bank as the lender-of-last-resort should not prove troublesome for Mexico for several reasons. First, several experts have harshly criticized central banks in Latin America in general, arguing that such institutions generate "inflation, corruption and poverty" and, therefore, should have been abolished years ago if certain economists and politicians in this region had acted rationally.<sup>44</sup> Opponents of central banks suggest, moreover, that these financial entities are ill-equipped to serve as a lender during critical periods because, instead of simply recognizing the fact that a certain incidence of bank closure is inevitable to a the deficiency of available credit, they are inclined to conceal the fact with a money-creation process that eventually triggers the destruction of the local currency and formerly healthy banks, too. For this reason, such experts claim that using central banks as a lender-of-last-resort is simply "failed or failing banking policy."<sup>45</sup> Second, eliminating this local lender-of-last-resort should not be problematic due to the fact that alternative arrangements for financing during a crisis may be made by the Mexican government. While such theories have been challenged on occasion<sup>46</sup>, the government could (i) secure lines of credit from financial institutions abroad, (ii) set aside a liquid fund to be loaned to local banks during an emergency, (iii) require high reserve requirements for banks, thereby forcing these local entities to maintain a high percentage of their deposits in liquid US-dollar-denominated instruments, (iv) establish

---

withdraw such monies hastily due to fears that such funds will become inaccessible or tremendously devaluated. *See id.* As lenders-of-last-resort, central banks in Latin America tend to avoid crises of this nature by merely printing additional currency. This ability, explains Velasco, "disappears under dollarization." *Id.*

44. Steve H. Hanke, *How to Abolish Currency Crises*, FORBES, March 20, 2000, at 145. According to Hanke, logic dictates that the central banks in Latin America should have been eliminated years ago. However, numerous decision-makers in the region (i.e. economists and politicians) have acted irrationally, "ignored the incriminating evidence and sang the glories of national currencies produced by central banks." *See id.* Such unsubstantiated support of these problematic financial institutions, argues Hanke, is utterly misdirected: "All this has about as much logic as giving gasoline and matches to an arsonist and complaining about the fires." *See id.*

45. *See Dornbusch, supra* note 39.

46. Velasco, *supra* note 43, at 6. While the ideas for alternative arrangements identified by experts appear tenable, they remain to a large extent completely untested. *Id.* For instance, Velasco acknowledges that encouraging foreign ownership of domestic banks could represent a feasible solution. Nonetheless, further evidence is necessary to justify such arguments: "Will Citibank US ride to the rescue every time that Latin or Asian banks in which it has a ten percent equity stake gets into trouble? Perhaps. But hanging a whole financial system's health on that conjecture seems risky indeed." *Id.*

open contingency credit lines with multilateral public institutions such as the International Monetary Fund, World Bank, Inter-American Development Bank, etc. or (v) encourage foreign ownership of domestic banks.<sup>47</sup> Third, the eradication of central banks as lenders-of-last-resort may actively stimulate increased financial and administrative discipline since the largest arrow in its bank-saving quiver (*i.e.* instant money creation) will be rescinded.<sup>48</sup>

### 3. Exchange-Rate Flexibility and Economic Sovereignty

In theory, countries benefit from having their own monetary policy because they can address local economic conditions by rapidly manipulating/devaluing their local currency, thereby preparing the economy for external shocks, decreasing the interest rate, and leveling long-term trends in economic growth and unemployment.<sup>49</sup> In the majority of Latin American countries, the key weapon in the monetary arsenal has been a flexible exchange rate between the national currency and the dollar, which functions to counteract fluctuations in the economies of these two countries.<sup>50</sup> In spite of the untamed economic volatility in the region, some experts argue that eradicating exchange-rate flexibility in favor of dollarization is reckless and untimely, claiming

---

47. *Id.*; see also *Hearing/Hinds Testimony*, *supra* note 42; see also Ricardo Hausmann et al., *Financial Turmoil and the Choice of Exchange Rate Regime*, WORKING PAPER NO.400 (Inter-American Development Bank, New York, N.Y.), 1999 (on file with the University of Miami Inter-American Law Review). Arranging appropriate lines of credit with foreign banks would be effortless for Latin American countries. With regard to Ecuador, for example, the author suggests that even if the United States attempted to restrict this nation's access to the Federal Reserve system, foreign banks would "line up" to furnish the needed funding, provided that they could secure adequate collateral. *Id.*

48. See Guillermo A. Calvo & Carlos A. Vegh, *Currency Substitution in Developing Countries*, IMF WORKING PAPER 92/40 (International Monetary Fund, New York, N.Y., May 1992) (on file with the University of Miami Inter-American Law Review). Proponents of this argument recognize that the introduction of dollarization may not, in practice, force central banks to completely relinquish its money-creation authority. See *id.* The authors explain, in particular, that "critics will have an easy time finding a plethora of historical examples in which as soon as the domestic financial system threatened to collapse, rules were relaxed and the system was bailed out – which could lead to, at least, a temporary abandonment of full dollarization." *Id.*

49. See STAFF OF SUBCOMM. ON ECON. POLICY OF SENATE COMM. ON BANKING, HOUSING AND URB. AFFS., 105<sup>th</sup> Cong., REPORT ON ISSUES REGARDING DOLLARIZATION (Comm. Print 1999) (expressing the views of the author, Robert Stein, Staff Director) [hereinafter ISSUES REGARDING DOLLARIZATION].

50. Jeffrey Sachs & Felipe Larrain, *Why Dollarization is More Straitjacket Than Salvation*, FOREIGN POLICY, Sept. 22, 1999, at 80.

that “[d]ollarization is an extreme solution to market instability, applicable in only the most extreme cases. The opposite approach – a flexible exchange rate between the national currency and the dollar – is much more prudent for most developing countries, including those hit by recent crises.”<sup>51</sup>

Notwithstanding such endorsements, many authorities adopt the opposite stance, pointing out that the flexible regimes have repeatedly failed throughout Latin America.<sup>52</sup> In particular, it is argued that recent experiences in the region indicate that the popularity of floating exchange rates may constitute merely “another form of charming naivete” since they have failed to (i) provide autonomy in the determination of interest rates, (ii) facilitate more stabilizing monetary policies, or (iii) increase the countries’ ability to absorb shocks.<sup>53</sup>

Opponents of dollarization have espoused two main arguments in their campaign against adoption of this drastic measure. Such assertions, however, have been frequently refuted. First, some economists maintain that central banks are necessary to control inflation, decrease interest rates in times of recession, finance government deficit spending and temporarily support financially troubled institutions. This premise has been vehemently rejected by, among others, experts who characterize the central banks in Latin America as the “Achilles’ heel of these countries” that have historically obstructed true economic advancement.<sup>54</sup> Such ineptitude, it is argued, is so apparent that

---

51. *Id.*

52. See ISSUES REGARDING DOLLARIZATION, *supra* note 49. In Stein’s opinion, as opposed to counteracting economic shocks, “independent monetary policies have actually been pro-cyclical, exacerbating the ups and downs of the business cycle.” *See id.*

53. Hausmann, *Five Currencies*, *supra* note 1, at 72. Hausmann claims that past experiences in Chile, Mexico, Peru, and Venezuela demonstrate that in reality the exchange rate was not allowed to move adequately during pivotal economic moments. *See id.* Instead, he argues, they “react by raising interest rates, thereby dramatically worsening the domestic situation.” *See id.*; see also Steve H. Hanke, *Letters to the Editor: The Beauty of a Parallel Currency*, WALL ST. J., Jan. 11, 2000, at A27. In the case of Ecuador, for example, in an attempt to conserve its foreign reserves, in February 1999 the government allowed the local currency (the *sucre*) to float, a maneuver that encountered significant difficulties. *See id.* During the following year, the Ecuadorian currency lost more than seventy percent of its value against the dollar, a performance that has provoked repeated criticisms of the floating exchange policy. *See id.* As the words of this renowned economist, “[t]he *sucre* hasn’t floated on a sea of tranquility.” *Id.*

54. See Dale Keiger, *The Way According to Hanke*, JOHNS HOPKINS MAGAZINE, September 1999, available at <http://www.jhu.edu/~jhumag/0999web/hanke.html> (last visited July 28, 2001). In the opinion of economist Steve Hanke, “the banks’ records make clear that they cannot be trusted to make prudent decisions, that they are susceptible to politi-



virtually all persons, irrespective of their particular knowledge of economics, realize that the central banks are detrimental to the local economies.<sup>55</sup> Other advocates of dollarization discredit the argument that dollarization is unfeasible in the larger economies of Latin America because of the need for swift adjustments. As an illustrative case, such experts indicate that all of the states in the United States are dollarized, notwithstanding the distinct resources and disparate economic cycles of each.<sup>56</sup> Similarly, other dollarization advocates claim that, in light of the poor historical performance of the central banks in the region, the removal of monetary-policy decisions from the central bank is a prudent decision. They state, specifically, that labeling as beneficial the surrender of authority by the central bank may appear paradoxical at first glance, “but if the central bank cannot fully commit to its policy announcements then there is a benefit in taking control away.”<sup>57</sup> Sharing this opinion, official US government reports have negatively assessed the previous performance of many central banks in Latin America. With a dose of deference that tends to disguise the harshness of its actual conclusions, a recent congressional report indicates that the independent monetary policies in the region commonly “aggravated rather than eased economic problems” and constitute “a major source of instability in many countries.”<sup>58</sup> Still others claim that, despite the considerable amount of rhetoric regarding this subject, the monetary-policy issue has very little practical significance since the central banks in Latin America rarely achieve an interest rate lower than that in the United States, which would control the interest

---

cal pressures and poor judgment and tend to do more harm than good.” *Id.* Based on these facts, Hanke advocates strict measures: “Put them in a straitjacket . . . or abolish them altogether.” *Id.*

55. *See id.* Hanke argues that people already know that the central banks are deficient and, thus, choose to dollarize unofficially. *See id.* Hanke points out, for instance, that “[y]ou go to Mexico or Russia and you find that everybody is using greenbacks. They don’t need some damned economist or pedagogue explaining the problem with central banks.” *Id.*

56. Steve Hanke, *Dollarize Now*, *FORBES*, May 3, 1999, at 208. Rejecting the argument that a nation’s size is an impediment to dollarization, the author makes the following comparison: “There is less to this argument than meets the eye. All fifty states within the United States are officially dollarized, and some have very large economies. Indeed, California’s economy is larger than Brazil’s, which accounts for almost forty-five percent of Latin America’s total economic activity. I have yet to hear calls to establish a central bank of California.” *Id.*

57. Roberto Chang, *Dollarization: A Scorecard*, 85 *ECON. REV.-FED. RES. BANK OF ATLANTA* 1, 9 (Third Quarter 2000).

58. *See S. REP. NO. 106-354* (2000).

rate upon dollarization.<sup>59</sup> With regard to the potential loss of monetary policy as an impediment to dollarization in Mexico, various experts have rejected this factor outright, stating that this is merely a “technocratic argument” that is based on the popular analogy that dollarization would be equivalent to amputating an appendage of the economic body. Regardless of the popularity of this metaphor, it is argued, that this type of “I-know-much-more-than-you-do policy advice defies the common-sense logic of radical currency reform.”<sup>60</sup>

The second argument embraced by detractors to dollarization is that elimination of the central bank would entail surrendering a certain degree of national sovereignty. Historically, a national currency has been symbolic of a country, and the eradication thereof would thus be tantamount to renouncing a portion of a nation’s autonomy. This perspective, though, is suspect in the opinion of dollarization advocates for a multiplicity of reasons. For example, several proponents flatly deny the existence of a relationship between the two factors, claiming that “[t]he currency of a country has nothing to do with its sovereignty”<sup>61</sup> and that identifying a national currency as the quintessential symbol of sovereignty “inappropriately mixes political concepts with economic concepts.”<sup>62</sup> In support of this assertion, supporters have developed a list of the other countries that are already use a foreign currency, emphasizing that they still are, never-

---

59. See Dornbusch, *supra* note 39. Dornbusch suggests that the arguments against dollarization are valid in theory, but lose credibility upon application to real events. See *id.* In principle, argues Dornbusch, there might be some scope for deeply undervalued currencies in Latin America to achieve lower nominal interest rates than those in the United States, “but achieving such levels of undervaluation is unseen in the region except in the immediate aftermath of a collapse at which time inflation fears typically abound.” *Id.* Consequently, Dornbusch concludes that monetary policy debate “is a point with little practical significance.” *Id.*

60. *Dollarization and Monetary Stability in Latin America: Hearing Before the Subcomm. on Domestic and Int’l Monetary Policy of the House Comm. on Banking and Fin. Servs.*, 106th Cong. (2000) (testimony of Roberto Salinas Leon, Exec. Dir. of Policy Analysis at TV Azteca) [hereinafter Hearing/Salinas Testimony].

61. See generally JOSÉ LUIS CORDEIRO, *LA SEGUNDA MUERTE DE SUCRE . . . Y EL RENACER DEL ECUADOR* (1999) (on file with author).

62. Steve H. Hanke & Kurt Schuler, *A Monetary Constitution for Argentina: Rules for Dollarization*, 18 *CATO JOURNAL* 405, 408 (Winter 1999). According to the authors, national sovereignty is the ability of a government to have freedom in foreign policy and other international political matters. *Id.* at 409. It is not, he explains, the ability of a government to restrict the political or economic freedom of its citizens. See *id.* Thus, “[i]n a market economy, the fundamental concept is not national sovereignty but individual freedom of choice.” *Id.*

theless, countries.<sup>63</sup> According to other experts, the essence of sovereignty is free-will of a country's citizens, not that of the government.<sup>64</sup> Likewise, another Latin American observer postulates that sovereignty, as properly defined, focuses on the autonomy of consumers in selecting the most advantageous currency instead of on the freedom of the government to set monetary policy. Several polls in Mexico, in fact, indicate that those most worried about the issue of national sovereignty are the sovereigns themselves (*i.e.* the government officials) and not the citizens.<sup>65</sup> In this sense, dollarization actually increases monetary sovereignty for the dollarizing country. For others, the issue simply lacks major importance due to the global trend toward overall economic stability.<sup>66</sup> Therefore, despite the nationalistic ideals so profoundly inculcated in the region, many countries have finally determined that "the conclusion that the cost of maintaining a national currency, "no matter how satisfying to their emotions – has simply become too high to bear."<sup>67</sup>

---

63. See INSTITUTO ECUATORIANO DE ECONOMÍA POLÍTICA (IEEP, Guayaquil, Ecuador) DOLARIZACIÓN OFICIAL EN ECUADOR, Jan. 13, 2000, available at [http://www.vonbergen.com/ecuador/Espanol/dolarizacion\\_oficial.htm](http://www.vonbergen.com/ecuador/Espanol/dolarizacion_oficial.htm) (last visited Apr. 22, 2000). The author explains that a Central Bank is not necessary for national sovereignty since, for instance, Ecuador was already a nation prior to the establishment of this institution. See *id.* He contends, furthermore, that the importance of a national currency to project a national identity is overrated since Panama, a country that implemented dollarization nearly a century ago, still enjoys a strong national identity. See *id.*

64. See generally CORDEIRO, *supra* note 61. The author claims that "[s]overeignty does not reside in the currency, rather in the well-being of the citizens. *Id.* Accordingly, the only ones at risk of losing their 'sovereignty' with dollarization are "the corrupt politicians that print inorganic money in order to pay their own salaries." *Id.* The remainder of the population, maintains this author, would be more sovereign upon having a better quality of life linked to the strongest currency in the world. See *id.*

65. See Judy Shelton & Abel Deltran Del Rio, *Monetary Policy and Economic Performance in Mexico*, in MONETARY STABILITY AND ECONOMIC GROWTH (Robert A. Mundell & Paul J. Zak eds., 2001). While addressing the feasibility of a currency union between the United States and Mexico, this article suggests that government leaders are practically the only persons concerned about such esoteric issues as the sacredness of national sovereignty. See *id.* The citizens, explains this article, "just want money that works." *Id.*

66. Hausmann, *Five Currencies*, *supra* note 1, at 78. Hausmann suggests that this issue probably appears more important than it is. *Id.* at 77. Over the past twenty years monetary authorities have become increasingly independent while narrowing their objectives to focus almost entirely on the achievement of price stability. *Id.* at 77-78. In the end, the author reasons, "the monetary authorities' autonomy and accountability are much more important than their national origins." *Id.* at 78.

67. Jonathan Peterson, *The Buck Does Not Stop Here*, L.A. TIMES, Apr. 2, 1999, at A1 (quoting Benjamin J. Cohen, UC Santa Barbara). The author suggests that throughout the region attitudes toward dollarization and the idea of sovereignty are rapidly changing. *Id.* Now, claims the author, Latin American opinion leaders are openly discussing that which earlier was considered unspeakable, *i.e.*, "linking their economies, indeed their fi-

#### 4. Social Costs

It has been argued that dollarization would have tremendous social costs since, once a government is deprived of its ability to use protective measures such as devaluating the local currency, the public in general, and the working class in particular, will be the repository of nearly all negative ramifications. According to one expert, “[a]dopting a common currency such as the U.S. dollar or a newly minted one with the face of Columbus –or for that matter Ricky Martin– without ensuring the necessary changes in its institutional and economic structure, including the free movement of labor into the United States, may easily end up hindering . . . economic development.”<sup>68</sup> On this same note, commentators suggest that irrespective of implementation of the dollar, developing economies like Mexico will inevitably experience external shocks that require macroeconomic adjustment programs. Due to the fact that the option to modify the exchange rate is abolished under dollarization, the shocks will most likely be absorbed by reducing domestic wages and raising prices. As a result of the “monopolistic competition and rigidity of labor laws in the region,” such changes would generate political and social instability. Under dollarization, then, it is conceivable that the burden of macroeconomic adjustments will disproportionately prejudice the working class and the underemployed.<sup>69</sup>

As with the previous arguments against dollarization, this

---

nancial destinies, to the very symbol of Yankee capitalism, the dollar.” *Id.*; see also David J. Rothkopf, *In Ecuador and Elsewhere, It's Change For a Dollar*, WASH. POST, Jan. 30, 2000, at B2. Rothkopf argues that, “in essence, the global marketplace is already dollarized” and the tension begins only when countries view national identity as being linked to sovereignty; whether the countries allow their currencies to float freely in the market or peg them to an existing currency such as the dollar, the author claims that “they have to face a new reality of the global marketplace. Their local currencies are a kind of figment of their national imaginations that dissolves once you cross their borders. Any transaction outside the country must be made in another currency.” *Id.*; but cf. *Hearing/Salinas Testimony*, *supra* note 60 (countering the argument that relinquishing the *peso* is tantamount to losing a portion of the Mexican national identity, by emphasizing that such notions are unrealistic in light of current circumstances: “This political argument falls flat in the face of a poor track record in maintaining the value of the currency. There is no basis for patriotic pride in high interest rates and a cumulative inflation rate of 275,000 percent in one generation.”).

68. See Juan Carlos Moreno Brid, *Dollarization in Latin America: Is it Desirable?*, DRCLAS NEWS (Harvard University, Cambridge, Mass.), Fall 1999, available at <http://www.fas.harvard.edu/~drclas/pages/tabpages/publications/newsletters/fall99/moreno.htm>. (last visited July 29, 2001).

69. See *id.*

too is vehemently refuted. Contrary to the position that elimination of the *peso* will result in tremendous social costs in Mexico, it is possible that the lower interest rates available in Mexico generated by dollarization will make obtaining a mortgage more feasible. In the words of one observer, “[h]igh interest rates means Mexican families can’t do something that Americans take for granted: get a mortgage.” Urging an end to unfounded “Mexico bashing,” commentators further argue that in the long run, far from prejudicing the Mexican working class, dollarization will actually create thousands of jobs, advance labor standards, raise wages and improve overall living standards in the country.<sup>70</sup>

## 5. Ancillary Costs

Finally, apart from the potential disadvantages listed previously, dollarization involves two additional costs. Mexico must first bear the expense of converting all prices, computer programs, cash registers, vending machines, etc. to be compatible with the dollar. Second, legal and transactional costs associated with revising contracts or refinancing will be incurred by the government and individuals alike. Such conversion costs, though, are significantly mitigated since the amount may be amortized over a long period due to the virtual irreversibility of dollarization.<sup>71</sup>

### *B. Advantages of the Monetary Act for Mexico*

Notwithstanding the potentially detrimental aspects of dol-

---

70. Walter Russell Mead, *How U.S. Can Rebuild Mexico*, L.A. TIMES, Apr. 30, 2000, at M1.

71. See *Dollarization as Diet: Joint Hearing Before the Subcomm. on Econ. Policy and the Subcomm. on Int'l Trade and Fin. of the S. Comm. on Banking, Housing and Urb. Affs.*, 105th Cong. (1999) (statement of Catherine L. Mann, Senior Fellow, Inst. for Int'l Econ.) available at <http://www.iie.com/PAPERS/mann0499.htm>. (last visited Apr. 21, 2000). Mann argues that dollarization should not be transformed into a fad diet, but a change of long-term lifestyle. See *id.* She explains, in particular, that “[p]olicy-initiated dollarization is like wiring your mouth shut to lose weight. It is effective in the short-run, but unless you undertake life-style changes (eating habits, exercise) you are not a healthier individual, just a thinner one. Moreover, once you have achieved your desired new weight, you’ll want to take off the braces and eat something besides a liquid diet. Unwiring your mouth, de-dollarizing[,] is very difficult since you can’t be sure . . . that you won’t go back to the old habits. Similarly, once dollarized by policy, changing the regime to regain monetary autonomy *simply may not be possible. In order to get the benefits, even if over-rated, you have to forswear ever changing.*” *Id.* (emphasis added).

larization set forth above, implementing this economic transformation in accordance with the Monetary Act will undoubtedly benefit Mexico in numerous manners. First, adopting the dollar reduces the risk of a sporadic currency devaluation which, in turn, makes the country more appealing to foreign investors. The credibility of Latin American currencies, especially the minor ones, is quite limited. This is evidenced by the fact that none of these countries has created long-term debt markets denominated in local currency, the result of which is that firms find themselves at a pivotal juncture with two equally-unappealing options: (i) borrow in dollars and be exposed to exchange-rate mismatches or (ii) borrow in local currencies and risk maturity mismatches and liquidity crises.<sup>72</sup> Second, a reduction in the inflation level will be a natural byproduct of dollarization. In comparison to advanced economies, inflation in Latin America has been 100 times more volatile, a phenomena largely attributable to unstable economic policies.<sup>73</sup> Upon dollarizing, this rampant inflation so notorious throughout the region will be stabilized.<sup>74</sup> Similarly, as a third benefit, dollarization will lead to a decrease in interest rates since these usually contain a premium for anticipated inflation or devaluation.<sup>75</sup> According to experts, these benefits are intertwined and thus difficult to appreciate indi-

---

72. See Peter Bate, *Dollars for Everyone?*, IDBAMÉRICA, Jan.-Feb. 2000, available at <http://www.iadb.org/idbamerica/Archive/stories/1999/eng/e699h.htm>. (last visited Feb. 19, 2001) (comments of IDB chief economist, Ricardo Hausmann, during seminar titled "New Initiatives to Tackle International Financial Turmoil.").

73. See *Issues Regarding Dollarization*, *supra* note 49. From 1970 to 1998, consumer price inflation averaged as follows: Argentina (158%), Brazil (143%), Chile (51%), Mexico (34%), Peru (108%) and Venezuela (25%). *Id.*

74. See STAFF OF SUBCOMM. ON ECON. POLICY OF THE SENATE COMM. ON BANKING, HOUSING AND URB. AFFS., 106TH CONG., REPORT ENTITLED "CITIZEN'S GUIDE TO DOLLARIZATION" (Comm. Print 1999) [hereinafter CITIZEN'S GUIDE TO DOLLARIZATION] (expressing the views of the author, Robert Stein). Stein suggests that a decrease in inflation hastens overall economic growth by increasing local savings, reducing interests rates and increasing foreign direct investment. See *id.*; See also Schuler & Stein, *supra* note 26, at 5. Schuler and Stein predict that dollarization will reduce inflation "to single digits from the double-digit levels that now exist in Latin America and elsewhere." *Id.*

75. See *Dollarization in Emerging-Market Econs. and Its Policy Implications for the United States: Joint Hearing Before the Subcomm. on Econ. Policy and the Subcomm. on Int'l Trade and Fin. of the Senate Comm. On Banking, Housing, and Urb. Affs.*, 106<sup>th</sup> Cong. (1999) (statement of C. Fred Bergsten, Director, Inst. for Int'l Econ.) available at <http://www.iie.com/PAPERS/bergsten0499.htm> (last visited Feb. 16, 2001) [hereinafter *Hearing/Bergsten Statement*]. Dollarization offers the following three main benefits: (i) provides greater credibility to a nation's commitment to eternally forgo the option to devalue, (ii) it assures that the nation will import stable prices and lower interest rates from the US, and (iii) lowers transaction costs, which, in turn, promotes further long-term integration with the US economy. *Id.*

vidually. They explain, for instance, that the tacit irrevocability of dollarization holds the promise of lower interest and inflation rates, higher levels of economic activity, greater financial stability, and deeper financial markets.<sup>76</sup> A fourth major advantage derived from officially adopting the dollar is that the transaction costs normally associated with commercial deals involving the United States are eliminated. Currently, a business transaction between the countries is a two-step process, whereby all *pesos* must first be converted into dollars, or vice versa. By utilizing the same currency, the costs related to the obligatory currency conversion are eliminated.<sup>77</sup> The increased transparency with which the Mexican government and its financial institutions will function constitutes the fifth benefit of dollarization.<sup>78</sup> As one of the most powerful Latin American countries to seriously consider dollarization, Mexico is being closely scrutinized by experts on a global level. This degree of vigilance will undoubtedly improve the clarity of governmental policy-making and the efficacy of financial institutions, which, like other entities in Mexico, have been criticized for their inefficiency and susceptibility to corruption.<sup>79</sup> As one expert explains, “[t]he transparency in the new monetary system would give impetus to fiscal and structural reform, since a policy mistake (*e.g.*, a large deficit) could no longer be ‘hidden’ with monetary tinkering (*e.g.*, artificially expanding the money supply to finance public largess.) So dollarization would invite open international scrutiny.”<sup>80</sup> Sixth, the stability generated by dollarization will continue to facilitate Mexico’s exports to the United States and other destinations. A significant percentage of Mexico’s revenue is derived from exports. For instance, according to recent governmental reports, this country

---

76. See *Hearing/Truman Statement*, *supra* note 2.

77. Schuler & Stein, *supra* note 26, at 5.

78. *Id.*

79. See generally Luz Estella Nagle, *Latin America in the Twenty-First Century: The Cinderella of Government - Judicial Reform in Latin America*, 30 CAL. W. INT’L L.J. 345(2000); see also *A Pact With the Angels*, *ECONOMIST*, May 10, 2001. According to this article, bribery is endemic in Mexican society because “[w]hen laws and regulations are complex, bureaucracy is tortuous, and the wages of minor officials are low, it is far cheaper to bribe than to be honest [and] few Mexicans can resist the temptation.” *Id.* To rectify this situation, President Fox has instituted several initiatives, including (i) forming an inter-ministerial commission to coordinate anti-corruption policies, (ii) creating a civic “anti-sleaze” council, and (iii) executing an anti-corruption pact with the private sector. *Id.*

80. Roberto Salinas-León, *Mexico, the “D” Word and the Stabilization Imperative*, in *DOLLARIZATION IN THE AMERICAS?* 7 (James W. Dean and Steven Gliberman eds., 2001).

generates approximately \$137 billion annually from the sale of its primary commodities (*i.e.* manufactured goods, oil-based products, silver, coffee and cotton). With an economy so reliant on sales to external markets, the stability associated with dollarization seems fundamental to continued success, particularly in terms of trade with the United States.<sup>81</sup> Avoidance of an economic crisis every six years is the seventh positive effect gained from adopting the dollar. Historically in Mexico, a country in which a presidential term lasts six years, an economic disaster occurs at the conclusion of each presidential administration, as was the case in 1976, 1982, 1988 and 1994. This "*sexenio*" is a direct result of the short-term mentality employed by former Mexican presidents who, although aware of the grave economic problems facing the nation and the need for immediate action, opted to simply maintain the status quo as part of their "not-on-my-watch" attitude. As one expert explains, the proximity of presidential elections prompted the incumbent administration to postpone implementing necessary policies. Consequently, shortly after the new president was elected, the Mexican government's only option was to devalue the *peso* and adopt harsh economic-stabilization measures.<sup>82</sup> Eighth, dollarization comports with the economic and judicial modernization plan that the Mexican government has been diligently implementing in recent years. Dollarization, in particular, would supplement new legislation in the areas of international insolvency and secured transactions, all of which share a common goal of, among other things, facilitating foreign investment and rapidly improving the Mexican economy.<sup>83</sup> The ninth reason why dollarization is advantageous for

---

81. See WORLD FACTBOOK, *supra* note 41. In order of importance, Mexico's principal export partners and the respective percentage of goods purchased are USA (89.3%), Canada (1.7%), Spain (.06%), Japan (.05%), Venezuela (.03%), Chile (.03%) and Brazil (.03%). See *id.*

82. Auberbach & Flores-Quiroga, *supra* note 24, at 4. See also *Hearing/Salinas Testimony*, *supra* note 60. As a result of these repeated *sexenios*, a "monetary cynicism" has traditionally pervaded Mexican society. True to this pattern, notwithstanding the solid economic policies in place prior to the presidential elections in 2000, widespread fear of another currency collapse and pervasive distrust of the monetary policy were endemic. In light of this recurrent pessimism, which is undoubtedly prejudicial to the economy, Salinas argues that "dollarization emerges as a radical but powerful option to rule out currency risk and all the malaise that monetary instability causes in the real economy." *Id.*

83. See Andrea Migdal et al., *Mexico: An Overview of Secured and Unsecured Transactions in Mexico*, LAT. AM. L. & BUS. REP., Dec.31, 1997. See also Timothy Canova, *Banking and Financial Reform at the Crossroads of the Neoliberal Contagion*, 7 U.S.-MEX. L.J. 85, 107 (1999).



Mexico is that such a change recognizes the free-will of the public, allowing the people to utilize their currency of choice. Similar to many other Latin American nations, Mexico is already unofficially dollarized to a significant degree and a large percentage of transactions, both large and small, are conducted in dollars even without formal government recognition of this foreign currency. While some jingoistic opponents of dollarization claim that introducing a foreign currency would constitute "an affront to the Mexican people," recent public surveys controvert this theory by demonstrating that the majority of Latin American citizens simply desire a strong medium of exchange.<sup>84</sup> The penultimate benefit of dollarizing is reducing capital flight and increasing long-term investment in Mexico. A pervasive problem throughout Latin America is the "hot money" invested in certain countries at opportune moments, which is hastily withdrawn at the first sign of trouble. In other words, "[w]hen the investors suspect that the relationship between the rates of devaluation and domestic interest rates will reverse itself, they convert their local currency into dollars and leave the place."<sup>85</sup> This situation, argue experts, is attributable solely to the existence of a local currency such as the *peso*, which allows speculators to make sizable profits from the constantly-fluctuating interest rates. Thus, if the fear of an economic collapse were eliminated by the introduction of the dollar, then the investors of hot money would tend to engage in long-term endeavors.<sup>86</sup> Finally, dollarization would allow the

---

84. See David Beim & Victor Bulmer-Thomas, *The United States of Latin America?*, LATIN RISK, July 1999. This article explains that both common citizens and business leaders in Latin America are increasingly asking for a stronger currency such as the dollar. *Id.* Latin Americans are deeply distrustful of government power in terms of monetary policy, argue the authors, "because they have seen such powers abused much more often than they have seen them exercised benignly." *Id.* See also *One World, One Currency: Destination or Delusion?*, IMF ECONOMIC FORUM (International Monetary Fund, New York, N.Y.), Nov. 8, 2000. Although this article acknowledges that dollarization would be a possibility for Mexico, it claims that this maneuver would be insulting to the people since "they would feel that they had lost something that was quite important to them, even though they haven't managed to keep their own *peso* stable since they left the system of fixed exchange rates." *Id.*

85. See *Hearing/Hinds Testimony*, *supra* note 42.

86. *Id.* This author claims that all the economic problems are interrelated in the sense that high interest rates and short-term loans kill investment, which impedes the creation of jobs, which causes social problems and political instability, which generates increased appeal of populist politicians and policies, which lead to devaluations, enormous capital flights and financial crises. *Id.* On the basis of this argument, the author concludes that "the expectations of instability that lurk beneath the fear of devaluations become a self-fulfilling prophecy." *Id.*

Mexican government to depend on the “external constraint” argument to implement necessary economic policies that would otherwise be unacceptable to the general population. Although local officials may concur wholeheartedly that Mexico needs to institute profound changes in diverse areas, they are unwilling to express such sentiments because doing so would be tantamount to political suicide. While the Monetary Act does not contain any explicit preconditions to dollarization, logic dictates that the United States will be reticent to allow Mexico to officially adopt the dollar unless this nation welcomes changes, too.<sup>87</sup> Accordingly, by using the but-they-made-me-do-it argument reminiscent of playground escapades, Mexican officials can successfully implement rigid policies that would be untenable under other circumstances.<sup>88</sup>

### C. Potential Disadvantages for United States Due to the Monetary Act

Due to the expanded use of the dollar abroad, passage of the Monetary Act will undoubtedly have repercussions for the United States, positive and negative alike. Accordingly, some experts have described dollarization as a “mixed blessing” for all parties involved.<sup>89</sup> As demonstrated below, though, the arguments of potential threats to the United States generated from the increased circulation of the dollar have little merit.

#### 1. The U.S. Federal Reserve Must Safeguard The Mexican Economy

In basic terms, the U.S. Federal Reserve (the “*Fed*”) is the

---

87. Monetary Act § 3 (1999).

88. Philip Suttle, *The Broad Issues on Monetary Union from a US Perspective*, LOOKING AHEAD, Sept. 1999, at 10. According to the author, some argue that governments in Latin America are incapable of introducing tough policies without an external constraint. *Id.* Therefore, “the United States would serve as the external constraint that would allow Latin American policymakers to implement tough fiscal reforms.” *Id.*

89. Dale McFeatters, *The Almighty US-Ecuadorian Dollar*, SCRIPPS HOWARD NEWS SERVICES, Jan. 19, 2000. *See also* Aravind Adiga, *Dollar Diplomacy*, MONEY, April 2001 at 26. To justify characterizing the dollarization as a “mixed blessing” not only for the United States, this author points out that while El Salvador gained a trustworthy currency, schools were required to impart special classes on U.S. history “so kids would know about the gringos on the new money.” *Id.*

central bank of the United States, which is composed of (i) a centralized government agency known as the Board of Governors, (ii) 12 regional banks located in major U.S. cities, and (iii) a monetary policy decision-making unit called the Federal Open Market Committee. In terms of functions, the Fed prints the currency, acts as banker for the government and commercial banks, and serves as lender-of-last-resort. Moreover, it sets monetary policy principally by using open-market operations (*i.e.* the buying and/or selling of securities) to alter bank reserves and influence interest rates, and changing reserve requirements. With these tools, the Fed affects interest rates, foreign exchange rates, commodity prices, and inflation rates to achieve its principal goal of maintaining price and financial stability.<sup>90</sup>

It is argued that officially condoning Mexico's use of the dollar will make it more difficult for the Fed to conduct monetary policy favorable to U.S. national interests. These analysts claim, in particular, that with dollarization the Fed "becomes responsible not only for the U.S. economy but the economies and monetary policies of dollarized nations, with all the political risks that entails."<sup>91</sup> Other commentators agree with this notion, emphasizing that dollarizing a foreign system would inevitably necessitate increased involvement by the Fed because the closer the currency exchange rate, the greater the impact on U.S. interest-rate policy.<sup>92</sup> Based on this allegedly unavoidable nexus between the Fed and a dollarizing nation, this author argues that "even if the United States does not lead the charge toward [dollarization or a monetary union], it must be watchful if the momentum in other countries continues."<sup>93</sup>

This assertion has been rejected by other experts who, in contrast, maintain that the mandate of the Fed always has been and will continue to be domestic, irrespective of dollarization in other nations.<sup>94</sup> For instance, observers suggest that official dol-

---

90. JOINT ECONOMIC COMM., 103d CONG., REPORT ON THE IMPORTANCE OF THE FEDERAL RESERVE - EXECUTIVE SUMMARY (Comm. Print 1997).

91. McFeatters, *supra* note 89.

92. Suttle, *supra* note 88 at 10.

93. *Id.*

94. Federal Reserve Bank of Atlanta, *Responding to Global Crises: Dollarization in Latin America*, ECON SOUTH, Second Quarter 1999. While discussing the role of the Federal Open Market Committee (FOMC), the policy-making section of the Federal Reserve, Jack Guynn, president and CEO of the Federal Reserve Bank of Atlanta, explained that "[t]he mandate of the FOMC is chiefly domestic. We're charged with delivering the best economic conditions we can as defined by, among other things, the inflation rate, the GDP

larization in Latin America is more accurately described as an “evolutionary” instead of a “revolutionary” one since many countries in the region are already marked by high indices of unofficial dollarization, a situation that has had a negligible effect on the Fed to date. Illustrating just how little influence this external use of the dollar has on U.S. decision-makers, such experts claim that the United States “has barely noticed the gradual adoption of the dollars as a means of payment in many Latin American economies, and official dollarization . . . would not change matters much.”<sup>95</sup> It is argued, furthermore, that the Fed is well accustomed to fending off pressure from extraneous sources while setting a monetary policy designed to benefit not only the United States, but also other nations to which it is closely linked. These advocates of dollarization suggest, particularly, that Latin American economies are already acutely aware of U.S. monetary policy actions and the Fed, for its part, is sufficiently internationalist “because it understands the dangers of a financial crisis abroad for the U.S. economy — that it already comes under pressure to avoid monetary policies that would do great damage to the rest of the world, including Latin America.”<sup>96</sup>

In order to clarify the intentions of the United States in spite of dollarization, some suggest that an explicit disclaimer could prevent subsequent recriminations from abroad. Accordingly, Alan Greenspan, chairman of the Fed, recently warned candidates for dollarization that they do so at their own risk: “We would never put ourselves in a position where we envisioned actions that we would take would be of assistance to the rest of the

---

growth, the unemployment rate and the safety and soundness of the banking system in the United States.” *Id.* Mr. Guynn did acknowledge, though, that even such domestic-based decisions inevitably produce ramifications on a global level. “But, the policy environment in which we attempt to achieve this mandate is global. No economic condition in any part of the world can be considered exogenous. And any action intended to produce a strictly domestic result is almost instantly transmitted around the globe and may or may not be countervailed by a concomitant change in international economic conditions.” *Id.* See also Steven K. Beckner, *Greenspan: Dollarization Unlikely to Create Problems for Fed*, MARKET NEWS INTERNATIONAL, Apr. 22, 2000. Greenspan clarified that the Fed would not alter its policy to benefit dollarized countries. See *id.* Although US monetary policy has historically taken into account the situation in the rest of the world, explained Greenspan, the Fed “would not focus on the well-being of the world as a whole versus the well-being of the United States.” *Id.* Greenspan announced, moreover, that external pressures subsequent to dollarization would have minimal impact on US policy, thereby making the issue essentially moot: “As a practical matter, I really don’t think that is a big issue.” *Id.*

95. *Hearing / Gavin Statement*, *supra* note 3.

96. *Id.*

world but to the detriment of the United States.”<sup>97</sup> This statement was accurately interpreted by the Latin American countries to mean that (i) the U.S. government is unwilling to extend the safety net of the Fed system to dollarized countries that incur economic trouble and (ii) the Fed will not determine monetary policy to account for the cyclical differences between the United States and Latin America.<sup>98</sup> Likewise, the Monetary Act itself expressly negates any accountability of the Fed in the event that a country decides to dollarize. It establishes, specifically, that the Fed “has no obligation to consider the economic conditions of dollarized countries when formulating or implementing monetary policy.”<sup>99</sup>

## 2. The Monetary Act May Tarnish The U.S. Image Abroad

The second main reason for labeling dollarization a “mixed blessing” for the United States is that, despite the express disclaimers of liability issued by the Fed and the Monetary Act, the process may still tarnish the U.S. image abroad. Specifically, experts speculate that while dollarization would certainly strengthen economic and other ties, the risk exists that in difficult times, the loss of monetary sovereignty will fuel resentment and encourage policymakers to attribute problems to the United States.<sup>100</sup> In view of the region’s history of political and economic instability, the Clinton administration acknowledged its concern that the relationship would become too close. According to U.S. Treasury officials, “given the political dynamics that play out in those societies at times of economic frustration, resentment could be vented at us.”<sup>101</sup>

Notwithstanding these arguments, high-ranking U.S. officials contend that the dollarization of Mexico and other Latin American nations will have a significant effect neither on the U.S. economy nor its reputation abroad.<sup>102</sup> Experts argue, for in-

---

97. Larry Rohter, *Using the Dollar to Hold the Line: US Currency Becomes Ecuador's*, N.Y. TIMES, Jan. 18, 2000, at C1.

98. *Id.*

99. Monetary Act § 2(b)(2) (1999).

100. *Official Dollarization in Emerging-Market Countries: Hearing Before Subcomm. on Int'l Trade and Fin. and Subcomm. on Econ. Policy of S. Comm. on Banking Housing, and Urb. Affs.*, 105<sup>th</sup> Cong. (1999) [hereinafter *Hearing/Emerging Market Countries*].

101. Rohter, *supra* note 97, at C1.

102. Beckner, *supra* note 94. According to Greenspan, there is already a significant

stance, that even if dollarization forces the United States to adjust its political and monetary policy based on conditions reigning in other countries, such a practice would by no means constitute a novelty.<sup>103</sup> Additionally, the Monetary Act itself explicitly disclaims any relationship between permission to dollarize and U.S. approval of policies, monetary or otherwise, in other countries. As experts explain, certification of a nation does not equate to an endorsement of the policies of the dollarized country. The Monetary Act, moreover, is not designed to convert the U.S. Treasury into an IMF-like entity that imposes draconian preconditions to dollarization. Rather, certification merely represents “a judgment by the Secretary of the Treasury that sharing seigniorage with a country is in the [best] interest of the United States.”<sup>104</sup>

### 3. The United States Will Forfeit Seigniorage Revenue

As explained previously, dollarization in accordance with the Monetary Act entails sharing the seigniorage revenue between the United States and the dollarizing nations. This profit sharing, suggest the critics, deprives the United States of precious income, especially in the case of country like Mexico with a population of approximately 100 million and a relatively strong economy. While it is irrefutable that the United States would stand to lose proceeds if a country would have dollarized even without the Monetary Act, this general criticism is unwarranted. The express purpose of the Monetary Act is to induce those nations that are leery of dollarizing because of a myriad of reasons, both obvious and cryptic, to do so during times of relative prosperity and economic stability. In such cases, but for the enticement supplied by the Monetary Act and the resulting dollariza-

---

amount of U.S. currency circulating outside of the United States, which has yet to cause a problem. *See id.* In fact, explains the leader of the Fed, “[w]e’ve been able to adjust our monetary policy to recognize that, and there have been no particular problems that have occurred as a consequence of that.” *Id.* Accordingly, reasons Greenspan, “there should be no particular problems if additional countries were to dollarize as far as our mechanical abilities to implement the appropriate monetary policy in the United States is concerned.” *Id.*

103. Hausmann et al., *Financial Turmoil*, *supra* note 47. According to the author, the Fed will want to maintain total independence due to its fear that markets will presume that it will consider the economic conditions of Latin America when setting policy. *Id.* This fear, suggests the author, is a reality in today’s world. “Was it not the economic conditions of emerging markets and their impact on the US financial system that prompted the interest rate cuts of October and November 1998?” *Id.*

104. Schuler & Stein, *supra* note 26.

tion, no revenues whatsoever would have been generated. Thus, borrowing from an adage understood by even the most inexperienced industrialist, surely a portion of something is better than all of nothing. Accordingly, instead of viewing the money apportioned with dollarizing countries such as Mexico as a loss, the overall economic benefit to the United States is more accurately classified as a gain. This theory is supported by recent legislative studies indicating that, from a purely economic standpoint, dollarization would undoubtedly be profitable for the United States. According to a report by the Congressional Budget Office, the U.S. revenues from seigniorage should increase by approximately \$1 billion over the 2001-2010 period (during which no payments are made to the dollarizing nations), while this nation will only be required to pay some \$980 million thereafter. Moreover, the Monetary Act "would not affect the budgets of state, local or tribal governments."<sup>105</sup> In any event, since the pros and cons regarding the allotment of seigniorage earnings seems to reach an equilibrium for the United States and the dollarizing nation alike, perhaps this issue should not even be a deciding factor.<sup>106</sup>

#### 4. Obligatory Bank Supervision By The United States

Opponents of dollarization claim that the elimination of the central bank and related regulatory agencies as a byproduct of dollarization will obligate the United States to assume, in essence, the role of bank supervisor in the dollarized nations. As one of the weaker arguments against dollarization, such contention can easily be discarded. In legal terms, the Monetary Act explicitly repudiates this claim by establishing that "the supervi-

---

105. CONGRESSIONAL BUDGET OFFICE, 105<sup>TH</sup> CONG., REPORT ON COST OF LEGISLATION (2000). This report acknowledges that such figures are, by obligation, speculative. *Id.* It states that the budgetary effect of the Monetary Act cannot be estimated "with a great degree of confidence" because (i) existing estimates of dollar use in other countries are inconsistent, (ii) determining the demand for dollars in a particular country were it to dollarize is troublesome, and (iii) assessing the probability that nations will dollarize with or without the enactment of the Monetary Act is "necessarily subjective." *Id.*

106. See *Hearing/Truman Statement*, *supra* note 2. The author argues that sharing seigniorage "would not cost the US taxpayer anything. However, if a country would have dollarized anyway . . . then sharing seigniorage by the US would imply forgoing additional seigniorage revenues. At the same time, if the benefits of dollarization to a country are significant, they should outweigh the lost seigniorage. In other words, the deciding factor for either country should not be whether seigniorage would be shared." *Id.*

sion of financial institutions in dollarized countries remains the responsibility of those countries.”<sup>107</sup> This fallacious premise is further discredited by years of practical experience in countries such as Panama where dollarization has endured for decades without placing the onerous of bank supervision on the United States. In the words of one expert, “there is no logical connection between dollarization and financial-market regulation. Panama has successfully operated a fully dollarized economy for several decades, and the U.S. has never involved itself in the supervision and regulation of that country’s banks.”<sup>108</sup> Logic and functional restraints, moreover, disprove the assertion that dollarization would inevitably lead to intervention by the United States in local bank administration. Citing the overall impracticality of U.S. regulators overseeing banks in other countries, observers have fervently rejected the possibility of such a role for the United States: “Banking supervision has an element of politics: its effectiveness depends on the ability of the monetary authority, the executive branch and the courts to enforce compliance — indeed, they might be considered interlopers who had no business meddling with local banks.”<sup>109</sup>

## 5. The Fed Must Serve As Lender-of-Last-Resort

As discussed above, the central banks throughout Latin America endeavor to meet the liquidity needs of local financial institutions by granting loans generated, as rudimentary as it may appear, from simply printing additional currency. In doing so, these central banks are acting as lenders-of-last-resort because, in light of the dire economic circumstances typically facing the applicant bank and the local economy as a whole, alternative potential lenders are scarce if not altogether nonexistent. Adversaries of dollarization warn that once the central bank vanishes upon the official adoption of the dollar, the Fed will be compelled to adopt this role.

Similar to those directly preceding it, this contention has also been rebuffed by dollarization advocates based on two main counterarguments. First, experts explain that alternatives to using a central bank as the sole lender-of-last-resort abound, rec-

---

107. Monetary Act § 2(b)(3) (1999).

108. *Hearing / Gavin Statement, supra* note 3.

109. *See Schuler & Stein, supra* note 26.



ommending that the dollarized governments (i) secure lines of credit from financial institutions abroad, (ii) set aside a liquid fund to be loaned to local banks during an emergency, (iii) establish open contingency credit lines with multilateral public institutions such as the International Monetary Fund, World Bank, Inter-American Development Bank, etc., (iv) encourage foreign ownership of domestic banks or (v) procure adequate insurance in the private sector.<sup>110</sup> Second, mindful of the potential complications caused by abolishing the central bank, the Monetary Act provides anticipatory exoneration in this sense for the United States, stipulating that “the Federal Reserve System has no obligation to act as lender of last resort to the financial systems of dollarized countries.”<sup>111</sup>

### C. *Advantages for the United States due to Monetary Act*

Due to Mexico’s important position in Latin America, politicians and analysts worldwide are closely scrutinizing this nation’s dollarization debate. In terms of the U.S. perspective, sources claim that this nation and its trading partners from Canada to Chile will be watching all such dollarization efforts intently, and “with a healthy dose of skepticism.”<sup>112</sup> Notwithstanding this overt curiosity, U.S. participation in this realm to date has been labeled “agnostic,” an ambivalence caused in part by concerns about the mechanics of the process and the potential added burden.<sup>113</sup> While such apprehension and inaction by the United States were arguably justifiable when less-than-ideal countries initiated dollarization under questionable conditions, in light of the pivotal role that Mexico plays throughout the entire western hemisphere, this strategy now appears inappropriate. As explained in detail later in this article, a better approach would entail enactment of the Monetary Act, thereby facilitating

---

110. Velasco, *supra* note 43, at 6; see also *Hearing/Hinds Testimony*, *supra* note 42; see also Hausmann et al., *Financial Turmoil*, *supra* note 47; see also *Official Dollarization in Emerging-Market Countries: Hearing Before the Senate Subcomm. on Econ. Policy and the Subcomm. on Int’l Trade and Fin. of the Senate Banking Comm.*, 105<sup>th</sup> Cong. (1999) (testimony of David Malpass, Director for International Economics of Bear, Stearns and Co., Inc.) [hereinafter *Hearing/Malpass Statement*].

111. Monetary Act § 2(b)(1) (1999).

112. Rohter, *supra* note 97, at C1.

113. *Id.*

dollarization in Mexico and, in turn, benefitting the United States both directly and indirectly.

Passage of the Monetary Act, however, has proven to be quite difficult, principally because neither the general population nor the politicians seem to grasp the magnitude of the benefits that such a law is designed to generate. This widespread obliviousness to the potential advantages for the United States is epitomized in the following statement commonly heard on Capitol Hill: “[E]conomic policy is never a matter of altruism, and it’s only fair to ask: Why should the United States seek to share its currency with the rest of the world?”<sup>114</sup> Cognizant of the fact that these tremendous benefits are not readily ascertainable, in the following section this article sets forth the reasons for which passage of the Monetary Act, and the resulting dollarization of Mexico, is advantageous for the United States.

### 1. The Monetary Act Concords with the Concept of Free Trade

The proliferation of dollarization triggered by the Monetary Act concords with the U.S. policy of hemispheric integration so adamantly promoted by this nation during the last decade. Pursuant to the original timetable, by 2005 the Free Trade Area of the Americas (“FTAA”) should stretch from Alaska to the Tierra del Fuego, thereby facilitating free trade between thirty four countries located in the Western Hemisphere comprised of over 755 million people.<sup>115</sup> Although enthusiasm for this mammoth trade proposal seemed to wane during the late 1990s, the “Plan

---

114. *Dollarization Bill Would Export Price Stability*, THE HILL, Apr. 12, 2000, at 36. Recognizing that egocentric analysis is understandable, Senator Connie Mack, the sponsor of the Monetary Act, explains that this law would occasion several benefits, including (i) increasing trade with and raising living standards in Latin America, (ii) enhancing investment and thereby promoting economic growth, (iii) introducing currency stability in the dollarized country, (iv) creating new markets for US goods in the 500-million person Latin American market, and (v) reducing currency risk for North Americans investing in Latin America. *Id.*

115. Dana Mibank, & Paul Blustein, *Bush to Talk Trade at Summit*, WASH. POST, Apr. 20, 2001, at A1. To gather support for his trade agenda, President Bush attended the third Summit of the Americas in Quebec accompanied by a sizable congressional delegation professing “that the US economy would reap substantial benefits from an FTAA, which would significantly lower tariff and other barriers to trade and investment from the Canadian Arctic to Tierra del Fuego.” *Id.*; see also Ron Fournier, *Leaders Talk Trade at Quebec Summit*, WASH. POST, Apr. 21, 2001.

of Action” adopted at a recent summit clearly demonstrates a renewed interest in this project. As evidence of this revitalized zeal, upon pledging to complete negotiations and implement this new free-trade zone within five years, President Bush announced that liberal trade throughout the hemisphere “starts with the cooperation between Mexico, Canada and the United States.”<sup>116</sup> In addition to the FTAA, the United States has spearheaded or openly condoned numerous multilateral trade initiatives, such as the North American Free Trade Agreement.<sup>117</sup> On the basis of this integration theory, there are compelling reasons to enact the Monetary Act.

According to one economist, for instance, the dollarization promoted by this legislation would likely “encourage extensions of the North American Free Trade Agreement throughout the Americas: NAFTA could become AFTA.”<sup>118</sup> Other experts concur, emphasizing that the Monetary Act reveals the fact that dollarization is directly related to the best interests of the United States. In their view, NAFTA has opened the American hemisphere to increased trade and investment from the United States, and dollarization will enhance the structural links between the economies on both continents.<sup>119</sup> Likewise, other financial authorities able to more readily identify the direct relationship between dollarization and U.S. policy explain that

---

116. Anthony DePalma, *Talks Tie Trade in the Americas to Democracy*, N.Y. TIMES, Apr. 23, 2001; see also *Leaders Sign Agreement for Trade Pact by December 2005*, ASS'D PRESS, Apr. 22, 2001. Impervious to those groups that attempt to impede free trade, at the recent FTAA summit in Quebec President Bush unequivocally declared that he is “going to pursue a free trade agenda.” A.P. Wire, *Declaration of Quebec City*, N.Y. TIMES, Apr. 22, 2001.

117. The amount of information on United States trade policy and NAFTA is abundant. See, e.g., DePalma, *supra* note 116. Proud of the figurative road forged by NAFTA in terms of trade, President Bush and others have recently referred to the FTAA proposal as simply an extension of NAFTA. See *id.* Also admiring the progress of NAFTA during the last few years is Mexican President Vicente Fox, who declared that “[w]hen we started negotiating NAFTA. . . in closed meetings and behind doors. . . you had a sense that people were ashamed of what they had done. But today we are proud of NAFTA.” *Id.*

118 Robert Barro, *From Seattle to Santiago, Let the Dollar Reign*, HOOVER DIGEST, 1999 No. 3. Advocating U.S. leadership in facilitating dollarization throughout the hemisphere, this author contends that the current situation is be viewed as an ‘opportunity’ instead of a risk. *Id.* “[T]he situation is actually an opportunity for the U.S. to promote a dollar zone throughout the Americas by using Argentina as its fist client [and] the benefits would be even greater if the system were extended from Argentina to less-reliable countries such as Brazil and Mexico,” argues Barro. *Id.*

119. Carlos S. Menem, Seminar on Dollarization, Paper presented at seminar entitled Dollarization: A Common Currency for the Americas? (Mar. 6-7, 2000) in Federal Reserve Bank of Dallas, [need publication date].

propagation of the dollar deepens hemispheric integration, which is "an avowed goal of U.S. policy and one that offers much potential for the U.S. economy."<sup>120</sup> If integration throughout the region is truly a goal as opposed to mere political rhetoric, statesmen with a more extreme perspective have suggested that dollarization itself is the most expeditious manner of achieving it. According to the former president of Argentina, for instance, "simply switching to a common currency would promote hemispheric integration as effectively as would many thousands of man-hours devoted to the ongoing negotiations over a free trade agreement for the Americas."<sup>121</sup>

In light of the current conditions, it is argued that the United States is effectively obligated to take a stance in order to preserve its position as a global forerunner in terms of free trade. One expert suggests, in particular, that a "neutral position [toward dollarization abroad] has strong negative implications for the U.S. with regard to global economic leadership."<sup>122</sup> This expert maintains that, parting from the premise that a stable monetary order is the foundation for a hemispheric free trade agreement, the United States finds itself in a quandary: How to propagate dollarization without creating the erroneous impression of imperialism.<sup>123</sup> To demonstrate that U.S. interest in dollarization should be increased for reasons other than self-interest, the author argues that chaos in an international monetary system is the nemesis of a "global marketplace dedicated to

---

120. *Hearing/Gavin Statement, supra* note 3. The benefits for the United States identified by this author include increased economic stability "and more rapid development of our neighbors in the hemisphere." *Id.*

121. Menem, *supra* note 119. This former Argentine official explains that the constant fluctuations of national currencies impedes economic integration in the Americas. *Id.* Switching to a common currency such as the dollar, therefore, would reduce the costs and the risks of international trade, thereby promoting trade integration and economic development in the region. *Id.*

122. *Dolarización: Sending a Signal: Hearing on Official Dollarization in Emerging-Market Countries Before the Subcomm. on Econ. Policy and the Subcomm. on Int'l Trade and Fin. of the S. Banking, Housing and Urb. Affs. Comm., 105<sup>th</sup> Cong.* (1999) (testimony of Dr. Judy Shelton, Mbr. of the Bd. Empower America). According to Shelton, "[i]t would be a mistake to the United States to be so cowed by the potential for diplomatic clashes that it avoids encouraging movements toward dollarization in Mexico and Canada." *Id.* At this juncture, contends Shelton, it is necessary to emphasize the positive implications of stable monetary relations among vital trade partners. *Id.*

123. *Id.* The author presents the following issue: "[H]ow do we send a message of encouragement that neither seeks to entice nations toward dollarization with superficial rewards nor obligates the United States to compromise its own perceived economic interests?" *Id.*

free trade.”<sup>124</sup> As drastic exchange-rate changes provoke accusations of dumping and unfair competition, governments tend to utilize protectionist measures that prejudice international trade and investment relations. Thus, although the United States has not actively participated in any nation’s decision to dollarize, under the present circumstances, it is essentially obligated to react: “Dollarization has arisen as a spontaneous movement within our hemisphere – this puts the ball in our court. If the United States neglects to play it, we lose the chance to win a decisive victory for free trade and free markets.”<sup>125</sup>

With regard to Mexico, policy analysts accurately note that the United States’ most pivotal relationship in Latin America is with Mexico because, as they describe it, “[n]o other country in the world affects the lives of Americans as much, and no country is more intensely affected by U.S. policies.”<sup>126</sup> In recent years, evidence of the flourishing relationship between these two countries is readily discernible. For example, Mexico has now surpassed Japan to become the United States’ second-largest trading partner, eighty percent of Mexican exports are destined for its northern neighbor, U.S. exports to Mexico have tripled over the last ten years to reach some one hundred billion annually, NAFTA has provided dispute-resolution mechanisms that have facilitated numerous expeditious determinations, and Presidents Bush and Fox have repeatedly announced their intentions of fortifying bilateral relations.<sup>127</sup> Based on this tight relationship and some substantial problems in other countries in the region, policy experts recommend that the Bush administration adopt all measures (*e.g.* promoting dollarization) that would tend to reinvigorate hemispheric relations. They argue, in particular, that “Bush should heed the warnings [because] if Latin American loses confidence in Washington . . . the opportunities for American leadership in the hemisphere will diminish, along with hopes for an effective U.S.-Latin American partnership.” Sympathetic with this position, other experts suggest that the United States

---

124. *Id.*

125. *Id.*

126. Peter Hakin, *The Uneasy Americas*, FOREIGN AFFAIRS, Mar./Apr. 2001, at 46, 57.

127. *Id.*; See also In Spanish, *Bush Focuses on Working with Mexico*, N.Y. TIMES, May 5, 2001. In his weekly radio address held coincidentally on the day of celebration of Cinco de Mayo, President Bush announced that “[t]he history of Mexican-American relations has had its troubled moments, but today our peoples enrich each other in trade and culture and family ties.” *Id.*

begin to encourage dollarization throughout the entire region, using Mexico as a natural point of entry.<sup>128</sup>

## 2. The Monetary Act's Effect On The Euro-Dollar Rivalry

Theorists claim that a decrease in the amount of usable currencies is a foregone conclusion, arguing that eventually all nations will be driven to adopt one of only a few supranational currencies: the euro, dollar and yen.<sup>129</sup> Due to this current global trend of currency reduction, experts argue that dollarization is necessary to confront the potency of the euro, the first "true rival" of the dollar in decades.<sup>130</sup> This widespread phenomena of eliminating weaker currencies has, according to analysts, created a sense of urgency in Latin American countries to attempt to create their own regional arrangements or, alternatively, to join the existing dollar or euro blocks.<sup>131</sup> Similarly, it is argued that in light of the inevitability of a global currency competition the United States is effectively obligated to take swift measures to facilitate dollarization throughout the region.<sup>132</sup> To the contrary, after fierce competition, these nations may adopt the euro.<sup>133</sup> In the

---

128. Judy Shelton, *Dollarization as Destiny?* (Feb.18, 1999), available at <http://www.IntellectualCapital.com>, last visited Apr. 21, 2000. The author explains that Mexico is the gateway to Latin America and will play a key role in establishing a common monetary foundation to support expanded trade. *Id.* Accordingly, the author suggests that the US send both an urgent message and a gracious invitation to Mexico: "We need to talk." *Id.*

129. David J. Rothkopf, *In Ecuador and Elsewhere, It's Change for a Dollar*, WASH. POST, Jan. 30, 2000, at B2. This author states that "Ecuador may have turned to dollarization out of desperation. But when it did, it became part of an irreversible trend that is a century in the making." *Id.*

130. BASICS OF DOLLARIZATION, *supra* note 8. The author explains that since the First World War, the number of currencies with independent monetary policies has risen in proportion to the number of independent countries. *Id.* However, the author states, a period of currency consolidation has commenced that will again divide the world into two or three large currency blocks. *Id.* The replacement of national currencies with the euro in eleven Western European countries, argues Schuler, has created "the first true rival to the dollar in half a century." *Id.*

131. *Id.*

132. Mark Falcoff, *Dollarization for Argentina? For Latin America?*, LATIN AMERICAN OUTLOOK, Apr. 1999. The author explains that many economists believe that the world is moving toward the use of two currencies: the euro and the dollar. *Id.* Thus, "[i]f the United States refuses to assume the leadership to create a dollar area, some Latin American countries may feel obligated to adopt the euro." *Id.*

133. Alonso R. Trujillo, *MERCOSUR: Trade Negotiations with EU*, INTER-AMERICAN TRADE REPORT, May 22, 2000. In April 2000, preliminary negotiations were held in Argentina between representatives of the European Union (EU) and MERCOSUR in order to identify the structure and delegates for the forthcoming bilateral negotiations, which

words of one expert, “the region, particularly the southernmost portions, might become a battleground between the euro and the dollar.”<sup>134</sup> In this perhaps unavoidable battle, Mexico could play a pivotal role because increasing the circulation of the dollar, especially in a country comprised of some one hundred million people, may lead to the adoption of the dollar by other Latin American countries with larger economies that have manifested a sincere interest in the possibility.<sup>135</sup> In other words, “[d]ollarization by one or more large Latin American countries [such as Mexico] would significantly expand the number of people officially using the dollar, moving the population of the dollar zone ahead of the population of the euro zone for the time being.”<sup>136</sup> It is suggested, furthermore, that propagation of the dollar in Latin America would allow the dollar to remain the “premier international currency,” a position that the euro is now challenging.<sup>137</sup>

### 3. Mexico Is a Test Case for the Monetary Act

Enactment of the Monetary Act and the ensuing dollarization of Mexico is important due to the symbolic importance of this country. As a result of the precarious conditions during which Ecuador decided to officially dollarize recently, this nation drew considerable attention and was labeled, among other things, the “economic guinea pig of Latin America.”<sup>138</sup> While the situation in

---

are designed to facilitate the creation of a free trade area between these two blocks. *Id.* Such heightened relations in terms of trade, investment and capital movements could lead to the eventual adoption of the euro. *Id.*

134. Mark Falcoff, *Dollarization for Argentina? For Latin America?*, LATIN AMERICAN OUTLOOK, Apr. 1999.

135. Bogetic, *supra* note 9; see also Ian Katz, *Greenback Magic?*, BUS. WK., March 13, 2000.

136. Schuler & Stein, *supra* note 26, at 7.

137. BASICS OF DOLLARIZATION, *supra* note 8; See also Dorte Verner, *The Euro and Latin America*, FINANCE & DEVELOPMENT, June 1999, at 43. Notwithstanding the threat to the dollar posed by the euro's introduction on Jan. 1, 1999, this article identifies several positive effects that the unified European market and its single currency should have on Latin America. *Id.*

138. Babette Stem, *Working for the Yankee dollar*, MANCHESTER GUARDIAN WEEKLY, Oct. 18, 2000. This article states that “Ecuador's adoption of U.S. currency may hold many lessons for the rest of Latin America” and “Ecuador is the biggest testing ground for dollarization.” *Id.*; see also Elliot Blair Smith, *Ecuador's Dollar Success Shows Buck Stops Nowhere*, USA TODAY, Oct. 12, 2000, at 1B. This author suggests that Ecuador's dollarization has implications for other economies in the region. *Id.* In fact, explains Smith, “[s]everal Latin American leaders say that if dollarization works in Ecuador—a worst case scenario for a transition from a fast-devaluing currency to a fixed one—it can

Ecuador was undeniably a test case for dollarization in general, further analysis indicates that dollarization in Mexico would more accurately be described as the true “guinea pig” for the Monetary Act for several reasons.

First, in order to increase the probability of success after dollarization, the Monetary Act encourages countries to officially dollarize amid periods of economic and political stability, instead of during a crisis.<sup>139</sup> Previously, in the absence of the Monetary Act, nations such as Ecuador unilaterally decided to dollarize their economies as an act of desperation during extremely treacherous financial and political conditions. Supporters of this monetary transition have claimed that dollarization has benefited Ecuador thus far, allegedly increasing foreign direct investment by thirteen percent and reducing inflation by ten percent during the first quarter of 2000.<sup>140</sup> The majority of the reports, however, describe the transition as somewhat more turbulent, citing problems with social unrest and public protests,<sup>141</sup> a lack of necessary fiscal and banking reforms,<sup>142</sup> and the laundering of

---

work anywhere.” *Id.*; see also Martin Barrow, *End of Currency Not Worth a Dime*, *TIMES* (London), Sept. 8, 2000, at 31. This article states that policymakers in Argentina, Brazil and Mexico are watching closely events in Ecuador, “aware they may soon be consulting President Noboa’s team on dollarization of their own economies.” *Id.*; see also *Wagering on the Dollar*, *LATIN FINANCE*, Sept. 1, 2000, at VII. This author describes dollarization in Ecuador as a “test case . . . which, if successful, could spread to other countries across the Latin American continent.” *Id.*; see also Larry Rohter, *Using the Dollar to Hold the Line: US Currency Becomes Ecuador’s*, *N.Y. TIMES*, Jan. 18, 2000, at C1. According to US Treasury Department officials, describing Ecuador’s decision to dollarize as untimely would be a gross understatement: “Not only is the country’s economy in terrible shape, but the decision to dollarize was taken hastily and unilaterally, for reasons more political than economic, catching Washington and international lending agencies completely by surprise.” *Id.* Accordingly, implementing dollarization in Ecuador, if successful, will serve as a paradigm for other nations in the region. See also Jane Bussey, *Ecuador’s Dollarization Seen As the Test Case for Controversial Measure*, *MIAMI HERALD*, Jan. 20, 2000. According to economists at the Inter-American Development Bank, the importance of dollarization in Ecuador cannot be underestimated: “If this fails, there aren’t too many lessons because it is such a difficult case . . . But, if it succeeds, even in Ecuador, it can make it anywhere.” *Id.*

139. Schuler & Stein, *supra* note 26, at 7.

140. Samantha Newport, *The Greenback Looks Like Good Medicine*, *BUS. WK.*, Oct. 9, 2000, at 25.

141. *Ecuador Government, Indigenous Protestors Resume Dialogue*, *AGENCE FR. PRESSE*, Feb. 5, 2001; See also *Ecuador Indian Protestors Refuse to Give Up Until Demands Are Met*, *AGENCE FR. PRESSE*, Feb. 2, 2001. The Confederation of Indigenous Nationalities of Ecuador (CONAIE) has constantly protested the government’s economic policy and demanded that dollarization be reversed. *Id.*

142. Robert J. Barro, *The Dollar Club: Why Countries Are So Keen To Join*, *BUS. WK.*, Dec. 11, 2000, at 25. The author indicates that dollarization of Ecuador is interesting be-



drug money and counterfeiting.<sup>143</sup> Based on these and other problems, observers conjecture that “[t]he hard part is still ahead for Ecuador and its citizens” since it still has not identified a coherent program to attract foreign investment, privatized numerous public institutions or implemented an accord signed recently with the International Monetary Fund.<sup>144</sup> Unlike Ecuador, the Mexican economy has enjoyed relative stability and growth in recent years. Accordingly, the true feasibility of the Monetary Act can be precisely assessed if Mexico were to dollarize under current conditions.

Second, as the first Latin American country to adopt the dollar under the auspices of the Monetary Act, other nations in the region contemplating this maneuver may view Mexico as a model. At one time or another, virtually all nations in the hemisphere have openly debated the possibility of dollarizing, including, among others, Brazil,<sup>145</sup> Argentina,<sup>146</sup> El Salvador,<sup>147</sup> Costa Rica, Guatemala,<sup>148</sup> Panama<sup>149</sup> and Canada.<sup>150</sup> While some of

---

cause few of the supposedly imperative preconditions— such as sound fiscal and banking procedures— were fulfilled. *Id.* In fact, states the author, “these deficiencies were part of the crisis atmosphere that generated the political consensus for dollarization.” *Id.*

143. Larry Rohter, *Ecuador's Use of Dollars Brings Dollars' Problems*, N.Y. TIMES, Feb. 5, 2001, at A6. This author explains that Colombian drug-trafficking groups began to purchase legitimate businesses in Ecuador as a way to launder their illicit earnings. *Id.* He explains, moreover, that Ecuador's neighbor, Colombia, is not only one of the world's principal sources of cocaine, but also the producer of approximately forty percent of the counterfeit dollars in circulation worldwide. With the dollarization of Ecuador, “[a]lmost overnight its counterfeiters were presented with a new market of 12.5 million people right on their doorstep [and] not ones to miss an opportunity, they cranked up the presses.” *Id.*

144. Thomas C. Trauger, *Beating the Drum for the Dollar in Ecuador*, BUS. WK., Jan. 22, 2001, at 6.

145. Domingo F. Cavallo, *Brazil's Best Hope*, FORBES GLOBAL, Feb. 22, 1999, available at <http://www.forbes.com/global/1999/0222/020401a/html>.

146. IADB's Calvo Says Argentina Dollarization 'Not a Bad Idea,' AFX EUROPEAN FOCUS, Feb. 1, 2001. See also *At the Mercy of the Dollar*, WASH. POST, Jan. 15, 2001, at A20.

147. Nfer Muoz, *Economy-El Salvador: Gov't Upbeat After 30 Days of Dollarization*, INTE PRESS SERV., Feb. 2, 2001; see also *Fitch: Fiscal Consolidation a Challenge for El Salvador*, BUS. WIRE, Jan. 19, 2001; see also Patrick Moser, *Salvadoran Start Rebuilding After Quake Devastation*, AGENCE FR. PRESSE, Jan. 18, 2001; see also *Dollarization in El Salvador*, LATIN AMERICAN NEWSLETTERS, Jan. 9, 2001; See also *Supreme Court To Consider Complaint Against El Salvador's Dollarization*, AP WORLDSTREAM, Jan. 6, 2001; See also F.T. McCarthy, *Divided About the Dollar: Dollarisation in Latin America: El Salvador is Leading a Central American Charge to the Greenback, but other Latin Americans Remain Cool*, ECONOMIST, Jan. 6, 2001; see also Andrew Bounds, *The Americas: El Salvador Plans to Adopt US Dollar*, FINANCIAL TIMES, Nov. 24, 2000, at 14 .

148. *Dollarization Looks Good to Guatemala*, EMERGING MARKETS WEEK, Apr. 3, 2000, at 6. Some Central American countries have recently been increasingly interested in dollarization: Guatemala and Nicaragua According to the general director of the Nicara-

these countries have already opted to dollarize even without the seigniorage-sharing benefits granted under the Monetary Act, a successful economic transition in Mexico pursuant to this law would logically spur other nations to do the same. This position is supported by experts in Latin American financial issues who explain that most nations in the Caribbean and Central America are following Mexico's example of implementing rigid fiscal policies, privatizing domestic markets and instituting a liberal trade regime. It would be logical, therefore, to fortify the situation by dollarizing, which would ignite a chain reaction throughout the region: "Argentina and Brazil, together with the rest of South America, would follow suit later."<sup>151</sup> Likewise, dollarization by Mexico under the Monetary Act could trigger a similar action in Costa Rica, a nation reluctant to relinquish its national currency.<sup>152</sup> Foreign experts argue that Costa Rica is ill-prepared to dollarize at this juncture because of (i) a scarcity of international monetary reserves, (ii) a sizable foreign debt, and (iii) a trading scheme wherein this nation's principal partners in Central America are not dollarized.<sup>153</sup> Costa Rican politicians, by contrast, cite the potential loss of seigniorage revenues as the primary justification for this country not to dollarize.<sup>154</sup> Thus, the seigniorage-sharing aspect of the Monetary Act would eliminate this argument, and Costa Rica would likely mimic Mexico by

---

guan Exportation Bank, Adolfo Arguello, "I wish dollarization would happen tomorrow." *Id.*; See also Katz, *supra* note 135. According to the author, in the short term, "only small and weak economies, such as Ecuador's, will switch to the dollar. *Id.* Calls for adopting the greenback, however, could grow stronger in coming years as trade links between latin countries and with the US multiply." *Id.*; See also *Latin Nations Turn to US Dollars as a Measure of Stability*, AGENCE FR. PRESSE, Jan. 6, 2001; See also Byron Dardón, *Dolarización: Procesos son distintos en Guatemala y El Salvador*, PRENSA LIBRE, Feb.8, 2001; see also *Divisas - Reglamentos van a dolarizar*, PRENSA LIBRE, March 20, 2001.

149 Juan Luis Moreno-Villalaz, *Lesson From the Monetary Experience of Panama: A Dollar Economy with Financial Integration*, CATO JOURNAL, Winter 1999.

150 Eric Beauchesne, *Canada Urged to Abandon Dollarization*, CALGARY HERALD, Oct. 5, 2000, at D4. See also *World in Brief*, WASH. POST, Aug. 24, 2000, at A18.

151 *Front Notes*, LATIN FINANCE, Oct. 2000, at 10.

152 Xinhua News Agency, *Controversy Over Dollarization in Central America Continues*, XINHUA GENERAL NEWS SERVICE, Jan. 11, 2001.

153 Patricia Leitón, *Dolarizar? todavía no*, LA NACIÓN, Feb. 22, 1999 (including comments by Guillermo Calvo, professor of economics at the University of Maryland).

154. Patricia Leitón, *Difícil cambiar moneda*, LA NACIÓN, Nov. 20, 1999. See also Mauricio Herrera, *País no debe dolarizar*, LA NACIÓN, Sept. 6, 2000. The President of the Central Bank of Costa Rica, Eduardo Lizano, introduced the idea of dollarization in 1999. *Id.* This idea, however, was later rejected by President Miguel Angel Rodríguez because of the possible revenue sacrificed by Costa Rica if it were to cease printing *colones*, the local currency. *Id.*

adopting the dollar. Such prediction is consistent with public announcements issued by, among others, diverse Costa Rican chambers of commerce.<sup>155</sup>

#### 4. Strengthen U.S. Investment in and Trade with Mexico

Many U.S. companies such as General Motors, Coca-Cola, Kodak and Hewlett Packard have a major presence in Mexico. According to experts, such a notable presence is an indication of investor confidence in the country: “[M]ore and more multinational companies come to the conclusion that this country is a great place for business.”<sup>156</sup> This realization, though, is far from novel. In fact, since the introduction of NAFTA in 1994, over \$64 billion in direct foreign investment has entered Mexico and experts predict increased interaction in the near future in diverse areas.<sup>157</sup> This interaction will be enhanced by, inter alia, a recent agreement between the Export-Import Bank of the United States and a Mexican development institution designed to increase trade by small and mid-size businesses on both sides of the border.<sup>158</sup> In complying with its NAFTA commitments, Mexico has opened new investment opportunities for U.S. entities dealing in energy, railroads, financial services and telecommunications.<sup>159</sup> The passage of the Monetary Act and the ensuing dollarization of Mexico would serve to safeguard U.S. investments in Mexico, direct and indirect alike. Dollarization, for instance, would create a stable environment in the international financial markets, thereby eliminating the recent economic crisis in Mexico that dissuaded long-term investment by those in the United States. In addition, the use of a common currency would reduce transaction costs for U.S. resident importers, exporters, borrowers and lend-

---

155. Marvin Barquero, *Cámaras del Istmo apoyan dolarización*, LA NACIÓN, Feb. 2, 2001.

156. Jim Robinson, *The Top 50 Foreign Companies in Mexico: As Mexico Embraces Free Trade and Puts Fiscal House in Order, More Multinational Companies Pour Into the Country*, BUS. MEX., July 1, 2000.

157. Robinson, *supra* note 156. The author argues that “it will come as no surprise that Mexico has overtaken Japan as the United States’ second-largest trading partner. And, in less than ten years, Mexico expects to beat out Canada for the coveted role as the United States’ number-one trading partner.” *Id.*

158. Brendan M. Case, *Ex-Im Bank Agrees to Boost Presence in Mexico*, DALLAS MORNING NEWS, March 28, 2001, at 4D.

159. BUREAU OF INTER-AM. AFFS. OF THE U.S. DEPT. OF STATE, FACT SHEET: NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA), 1996.

ers. This reduction in administrative costs would naturally result in an increase in the amount of U.S.-Mexican transactions conducted. Moreover, given the fact that under the Monetary Act Mexico would be required to open its banking system to foreign competition, dollarization would increase the market for services provided by U.S. banks and other financial institutions.<sup>160</sup> Yet another benefit to U.S. investors is that the lowered inflation rates afforded by dollarization would generate greater levels of consumption of U.S. products in Mexico. According to experts, “[t]he stronger consumption and increased sales this growth would spark could improve the performance of US businesses that export to dollarized markets.”<sup>161</sup> Finally, the Mexican markets for U.S. goods would become less volatile because, upon dollarization, Mexico would be unable to make “competitive devaluations” designed to impede U.S. exports. This inability to devalue would, in addition, foster a more harmonious US-Mexican trade relationship by reducing incidents of alleged “dumping,” which tend to arise when there are large unexpected devaluations that suddenly make the goods considerably less expensive. In short, dumping allegations are not derived from technological advantage; rather, they are a byproduct of “capricious exchange rate policies.”<sup>162</sup>

## 5. Eventual Dollarization of Canada

One of the explicit goals of NAFTA is to “eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the parties.”<sup>163</sup> Without a doubt, reaching this objective and thereby fortifying NAFTA would be simplified if all member-countries shared the same currency. While Mexico has expressed its interests in adopting the dollar, the predominate view in Canada has been outright rejection of such proposal despite the undeniably tight relationship between the economies of these three nations.<sup>164</sup> For example,

---

160. *Hearing/Hinds Testimony*, *supra* note 42.

161. *Responding to Global Crises*, *supra* note 12.

162. *BASICS OF DOLLARIZATION*, *supra* note 8.

163. North American Free Trade Agreement (“NAFTA”), Dec. 17, 1992, 33 I.L.M. 289 (1993), Article 102(a).

164. *Canada: Dodging Downdrafts*, *THE ECONOMIST*, Jan. 27, 2001, at 35. Describing the tightness of the relationship between the US economy and that of its northern neighbor, this author explains that “[w]hen the United States’ economy sneezes, so does Can-

some Canadian experts argue that dollarization is unnecessary because economic problems in this country are not attributable to monetary shocks because of poor policy decisions; rather, the volatility is due to real forces hitting the economy. These forces, it is argued, will not be eliminated by dollarization.<sup>165</sup> Similarly, other Canadian experts argue that dollarization is not feasible since Canada and the United States do not constitute an “optimum currency area,” a prerequisite to dollarizing.<sup>166</sup> Rejecting the contention that the Canadian economy is inferior to that of the United States, still other experts from this country argue that external assistance is unjustified. They state, in particular, that “Canada does not need to use the U.S. dollars for purposes of monetary and fiscal discipline; it has already demonstrated at least as much discipline in these areas as has the United States.”<sup>167</sup> Finally, other renowned Canadian economists do not reject the idea of a common currency in theory. They argue,

---

ada’s— but usually about six months later.” *Id.* See also Donald Coxe, *Why the Loonie Is So Lousy*, NAT’L POST, Apr. 7, 2001, at C2. Rejecting the possibility of dollarizing Canada, this author labels the act “a shameful abrogation of sovereignty” and asks two rhetorical questions, namely (i) “Does anybody think the Federal Reserve would take Quebec or even Alberta into its policy discussions?” and (ii) Does anybody rational really think Americans want to assume responsibility for Canada?” *Id.* See also Alan Toulon, *Dollar Up Deviation Says Report: Won’t Hit 60 Cents: Investor Confidence Unexplained Factor in Loonie’s Slide*, NAT’L POST, Apr. 4, 2001, at C1. A memorandum prepared by the Deputy Finance Minister of Canada, Kevin Lynch, clearly illustrates the position of the Canadian government toward dollarization: “Dollarization is unacceptable to us. It would mean zero influence over monetary policy, zero democratic accountability and zero capacity to deal with crises.” *Id.*

165 Jack L. Carr & John E. Floyd, *Real and Monetary Shocks to the Canadian Dollar: Do Canada and the US Form an Optimum Currency Area*, WORKING PAPER NO. UT-ECIPA-FLOYD-99-01 (Inst. for Policy Analysis, University of Toronto), 1999. The authors argue that the evidence clearly demonstrates that the movements in the real exchange rate reflect, in large part, economic shocks. *Id.* “The real exchange rate is volatile because there is volatility in real economic conditions. The volatility is not due to unpredictability in macroeconomic policy or speculative shocks to the demand for money, but rather to volatility in real forces hitting the economy,” they explain. *Id.*

166 Suttle, *supra* note 88. In order for countries to represent an “optimum currency area” the following criteria must be met: (1) relatively mobile factors of production (*e.g.*, capital and labor), (2) high degree of trade integration, (3) similar economic structures, and (4) integrated fiscal union. *Id.*; see John W. Crow, *Any Sense in a Canadian Dollar?*, POLICY OPTIONS, Mar. 1999, at 33. This author argues that at least one of these criteria has not been fulfilled. *Id.* He postulates, in particular, that “NAFTA does not allow for, or even contemplate for the future, the free movement of labor in search of new job opportunities . . . In fact, an important part of the U.S. rationale for negotiating NAFTA was that trade-induced prosperity in Mexico would encourage Mexican labor to stay at home rather than come across the border.” *Id.*

167. John McCallum, *The Case Against Monetary Union: A View From Canada*, LOOKING AHEAD, Sept. 1999, at 17.

however, that a true monetary union similar to that of the European Union would be preferable to the adoption of the dollar and all that using this U.S. currency entails.<sup>168</sup>

Notwithstanding these perhaps excessively nationalistic arguments, other Canadian experts with a more realistic perspective have acknowledged that this country would be more receptive to dollarization if Mexico were to adopt the U.S. currency in accordance with the Monetary Act. In fact, such experts insinuate that dollarization by its Latin American trade partner may actually obligate Canada to do the same in order to maintain the equilibrium within NAFTA: "If Mexico were to dollarize . . . we'd be offside in NAFTA on the currency issue [and] I'm not sure this wouldn't trigger enormous soul-searching here."<sup>169</sup> Other Canadian commentators with greater temerity in making predictions about the secondary effects of Mexico's possible dollarization conclude that Canada's paranoia of being left behind and isolated will force it to follow Mexico's lead. It is claimed, specifically, that "[t]he interesting question is what Mexican dollarization would mean for Canada . . . the increasing convergence of the NAFTA countries could result in Mexico willingly entering a monetary union with the United States and Canada being dragged in somewhat against its better judgment."<sup>170</sup> Based on these comments, it is arguable that passage of the Monetary Act and the ensuing dollarization by Mexico would create inertia potent enough to induce even Canada into switching its currency in its quest to fortify NAFTA further.

## 6. Fortification of the Mexican Economy

Due to Mexico's proximity to the United States, the facets of the relationship between these two nations abound. For example, major issues dealt with on a regular basis include migration, illicit drug activity, environment and natural resources, trade, human rights, and political reform. Moreover, the economics of these two countries are so inextricably linked that the relation-

---

168. Herbert G. Grubel, *The Case for the Amero: The Economics and Politics of a North American Monetary Union*, The Fraser Institute (1999) (on file with the University of Miami Inter-American Law Review).

169. Eric Beauchesne, *Lock Dollar to US Currency - Courchene Sees Pressure Mounting on Government as Dollar Sinks*, THE OTTAWA CITIZEN, May 24, 2000, at A1.

170. Suttle, *supra* note 88, at 10.

ship has been described as an “economic partnership for American prosperity.”<sup>171</sup> On the basis of this description, it is apparent that the strength of the Mexican economy is of paramount importance to both the United States and Mexico, for stability in the latter benefits the NAFTA region in its entirety. A significant portion of the Mexican economy is derived from foreign investment, which will increase with dollarization.

Recent studies analyzing Mexico are positive, suggesting that the economy is growing as a result of sound monetary policy and political stability.<sup>172</sup> The economy should be strengthened ever further if the plans of Vincente Fox, the new president-elect of Mexico, are implemented. Fox is determined to fortify the Mexican economy and the relations with the United States. Evidence of such ambition are his visits with U.S. politicians even before he officially assumed the presidency.<sup>173</sup> According to experts, Fox is highly qualified to accomplish such goals since, unlike previous Mexican presidents who have been everything from “fervent nationalists to bean-counting economists,” Fox is “a businessman to the core.”<sup>174</sup> From the outset of his presidential campaign, Fox has repeatedly emphasized his goal of bolstering the Mexican economy. In fact, the strength of the economy constituted such a major plank of Fox’s political platform that, in the opinion of some observers, Fox actually won the presidential elec-

---

171. See generally BUREAU OF INTER-AM. AFFS. OF THE U.S. DEPT. OF STATE, WORKING WITH MEXICO: BUILDING AMERICA’S FUTURE, June 10, 1998, at [http://www.state.gov/www/regions/wha/fs\\_980610\\_mexico\\_working.html](http://www.state.gov/www/regions/wha/fs_980610_mexico_working.html) (last visited Sept. 21, 2001) [hereinafter WORKING WITH MEXICO].

172. Deborah L. Riner, *Solid Ground: With Elections Looming, AMCHAM’s Chief Economist Gives You the Low-Down on the Mexican Economy*, BUS. MEX., June 1, 2000. A report by the Mexican-American Chamber of Commerce indicates that the economy should continue to grow: “There seems to be a broad consensus on the fundamentals of sound economic policy. The political process, which could culminate in the PRI’s losing the presidency for the first time since the party’s birth in the 1920’s, has not derailed the economy or sent the financial markets into turmoil. There’s still a lot of ground to cover, but markets and democracy are more strongly rooted in Mexico than ever before.” *Id.*

173. Mimi Hall, *Mexico’s Fox Seeks More Open Borders: Next Mexican Leader Wins praise, But No Promises*, USA TODAY, Aug. 26, 2000, at 1A. Fox met with both Bill Clinton and Al Gore in Washington D.C. just one month after his election. *Id.* While Clinton did not instantly embrace Fox’s proposal to open US borders to a freer flow of labor, products and services, he did recognize Fox as “a visionary determined to improve his country’s economy.” *Id.*; See also Rebeca Rodriguez et al., *Fox Meets With Bush: President-Elect of Mexico Lays Out His Vision*, FORT WORTH STAR TELEGRAM, Aug. 26, 2000, at 1. Not taking any chances, during his visit to the United States Fox met with both major presidential candidates, Gore and Bush. *Id.*

174. *Happy Birthday, Señor Fox*, THE ECONOMIST, July 8-14, 2000, at 31.

tion by “promising to throw the Mexico’s economic development into overdrive.”<sup>175</sup> For their part, it appears that investors throughout the region have faith in Fox’s economic plan.<sup>176</sup>

Fox has unequivocally announced his intention of increasing foreign investment, which, in turn, strengthens the Mexican economy. An enlargement of foreign investment, however, will be infeasible without the existence of monetary stability in Mexico. Thus, it is logical that Fox has a vested interest in ensuring that such economic predictability is achieved by adopting the dollar pursuant to the Monetary Act. As explained earlier, due to their proximity, physical and otherwise, the United States and Mexico are inextricably linked. The fortification of the Mexican economy, therefore, will undoubtedly benefit all the countries throughout the region, including the United States.

## 7.Support for Existing U.S. Foreign Policy

Enactment of the Monetary Act and the ensuing dollarization of Mexico are recommendable because such actions concord directly with U.S. foreign policy. Far from gestures of altruism, the aid given by the U.S. to Mexico is self-motivated due to the tight interrelationship between the two neighboring countries which, in the words of former president Harry S. Truman, have the common purpose of living together in harmony and working together for prosperity on both sides of the border.<sup>177</sup> For instance, approximately 500,000 Americans reside in Mexico, 2600 U.S. companies operate there and sixty percent of foreign direct investment in Mexico originates in the US. Mexico is also an important trading partner, obtaining nearly seventy five percent of its imports from the U.S. Furthermore, Mexico’s importance in setting American policy has increased in the last few years as a direct result of, among other things, the signing of NAFTA in the

---

175. Brenda Case & Alfredo Corchado, *Fox Tells Texas Business Leaders He May Allow Casinos in Mexico*, DALLAS MORNING NEWS, Aug. 26, 2000, at 1F.

176. *Id.* Fox “has excited the North American business community with talk of increasing foreign investment in Mexico from already high levels of \$11 billion a year.” *Id.*

177. Madeleine K. Albright, *Remarks at Dep’t. State Binational Commission Opening Plenary* (May 5, 1997), available at <http://secretary.state.gov/www/statements/970505.html>. Expanding on the theme introduced by Truman decades ago, the current Secretary of State explained the depth of the relationship between these two nations: “Our agenda is broad because US-Mexican relations are broad. Our border is long; our people visit each other, study each other, work with each other, conduct business with each other and influence each other every day.” *Id.*



1990s.<sup>178</sup> Based on these facts, the U.S. government has publicly recognized that:

U.S. relations with Mexico are as important as those we have with any other country in the world. A stable, democratic and prosperous Mexico is fundamental to U.S. national security. How the United States engages this neighbor and international partner now will have a direct effect on the lives and livelihoods of millions of Americans in the years to come.<sup>179</sup>

This idea that U.S. foreign policy involves, among other things, an emphasis on Mexico due to the reciprocal benefits that the U.S. may derive from such actions has been announced on numerous occasions. According to representations of U.S. foreign affairs officials, for example:

[T]o preserve our own freedom in the United States and our own values; to keep the U.S. economically strong and prosperous; to protect our citizens from such transnational threats of terrorism, drug trafficking and environmental degradation, we must fully be engaged in promoting democracy and prosperity in this hemisphere, and we must maintain a close cooperative relationship with the region.<sup>180</sup>

This aspect of U.S. foreign policy should obtain heightened importance as an increasing amount of U.S. investment and products enter Mexico under NAFTA. In fact, according to the U.S. Department of State, thanks to the stabilization of the Mexican economy and the signing of NAFTA, new opportunities for U.S. exporters and investors are being created, from which

---

178. *Changing Hats Across the Rio Grande*, THE ECONOMIST, July 8-14, 2000, at 30. Due to the fact that there are approximately 20 million Mexicans in America, this country is becoming "a touchstone of sorts for the United States." *Id.*

179. See WORKING WITH MEXICO, *supra* note 171.

180. Jeffrey Davidow, U.S. Foreign Policy Toward Latin America and the Caribbean in the Clinton Administration's Second Term, *Address before the Council of the Americas*, Dept. of State, (Apr. 28, 1997), at [http://www.state.gov/www/regions/wha/970428\\_davidow\\_coa.html](http://www.state.gov/www/regions/wha/970428_davidow_coa.html). See also Anne W. Patterson, Remarks by the Deputy Asst. Sec., Bureau of Inter-Am. Affs., at the Council of the Americas Conf., D.C. (May 6, 1996), at [http://www.dosfan.lib.uic.edu/ERC/bureaus/lat/1996/960506\\_PattersonEconomy.html](http://www.dosfan.lib.uic.edu/ERC/bureaus/lat/1996/960506_PattersonEconomy.html) (last visited Sept. 21, 2001). Solid economic prospects and the strengthening of democracy "make Latin America and the Caribbean an excellent partner for the U.S. See *id.* Our relations with Latin America are based on *mutual benefits* and mutual responsibilities," remarked the Deputy Assistant Secretary for Inter-Am. Affairs. *Id.*

numerous mutual benefits will be acquired.<sup>181</sup>

The Monetary Act may also provide the United States with a more efficacious way to meet its foreign policy goals in light of several failed models. During the last few decades, the United States has conferred enormous sums of money designed to foster with the development of emerging market countries such as Mexico. Such economic assistance, argue policy analysts, has been ineffectual overall. Therefore, they suggest that Monetary Act will constitute a “win-win proposition.” For its part, the United States attains “a more prosperous trading partner and the satisfaction of knowing that a policy actually is helping to boost living standards.” At the same time, the dollarizing nations obtain a stronger currency, economic stability and increased foreign investment. Based on these arguments, it is suggested that the Monetary Act offers the United States an effective choice in terms of foreign policy: “Continue with failed foreign aid programs that are bad for both taxpayers and recipients, or shift to dollarization, a policy that replaces good intentions with good results.”<sup>182</sup>

## 8. Ripeness of the Monetary Act

As mentioned in the introductory paragraphs of this article, the official position of the U.S. government regarding the Monetary Act has been that dollarization, under the appropriate conditions, is recommendable for all parties involved. Illustrative of such attitude are the documents drafted by high-ranking officials at the U.S. Treasury Department stating that responsible dollarization constitutes a “sensible” yet “unilateral” decision for

---

181. See BUREAU OF INTER-AM. AFFS. OF THE U.S. DEPT. OF STATE, COOPERATION WITH MEXICO: IN OUR NATIONAL INTEREST, May 1, 1996 at <http://www.dosfan.lib.uic.edu/ERC/bureaus/lat/1995/950510MexicoCooperation.html> (last visited Sept. 21, 2001). According to the State Department, as the Mexican economy recovers after the *peso* crisis and the recession of 1995, “NAFTA will create important new opportunities for US exporters and investors.” *Id.* Furthermore, this ever-deepening relationship will affect many areas including maintaining democracy, human rights, migration, illicit drugs, export/import, economic, and environment. *Id.*

182. See Daniel J. Mitchell, *The U.S. Dollar: Real Help for the Developing World*, THE HERITAGE FOUNDATION - NEWS & VIEWS, Jan. 26, 2000, available at <http://www.heritage.org/views/2000/ed012600b.htm>. Obviously embittered by the customary callousness of the decision-making process in the capitol, this author states that the benefits of the Monetary Act are so apparent that the decision to enact it “should be a clear choice, *even in Washington.*” *Id.* (emphasis added).

other nations. The United States, therefore, "should remain open to the possibility of sharing seigniorage revenues . . . with countries that dollarize under the right circumstances."<sup>183</sup> Notwithstanding this apparent support for dollarization, to date politicians have failed to enact the Monetary Act based primarily on the argument that such legislation was not timely. For instance, according to former U.S. Treasury Secretary Lawrence Summers, due to the fact that the Monetary Act may raise a multiplicity of complex political, foreign policy and economic issues, "the [Clinton] Administration *does not think the time is ripe for this legislation* and cannot support it at this time."<sup>184</sup> While the Monetary Act may have been slightly "green" when originally introduced, due to a number of circumstances that have changed since this time, this legislation is now so ripe that overlooking it again on Capitol Hill will inevitably generate a spoilage prejudicial to, in particular, the United States and Mexico.

When the Monetary Act was first introduced in 1999, the dollarization debate in Mexico was at an incipient stage and the probability of this nation adopting the U.S. currency seemed negligible. In fact, at the annual meeting of the World Economic Forum during this year, Mexican government officials flatly denied any interest in dollarization, preferring instead to maintain the floating exchange-rate policy that is currently utilized by Mexico in an attempt to stabilize the economy.<sup>185</sup> This traditional reticence toward adopting the dollar, however, has markedly changed in recent years thanks to, among other things, a prolific public debate on this issue involving diverse sectors of Mexican society and the election in 2000 of President Fox, who managed to displace the *Partido Revolucionario Institucional* ("Revolutionary Institutional Party") that had controlled the government for over seventy years. Fox, a person educated at ivy-league universities in the United States and experienced as a bilingual professional working for U.S. multinationals located in Mexico, has also managed to introduce an unparalleled level of liberalism and modernity in terms of economic policy for his nation. Coupled with other factors, these changed circumstances in Mexico have revived the interest of this country in dollarizing to such levels

---

183. S. REP. NO. 106-354 (2000) (letter from former US Treasury Secretary Lawrence H. Summers to Senator Connie Mack dated July 13, 2000).

184. *Id.*

185. See generally Auberbach & Flores-Quiroga, *supra* note 24.

that, according to experts, this issue "is likely to remain on the Mexican agenda in the years to come."<sup>186</sup>

For nearly three decades, Mexico has suffered variable inflation rates, extremely high real and nominal interest rates, external and internal financial shocks, currency devaluations, rapid growth of external debt, generalized economic slowdown, increased poverty, and a very uneven distribution of income.<sup>187</sup> Consequently, the "overriding goal" in Mexico is to avoid the periodic financial crises that have had a damaging effect on Mexican economic performance and stability. While Mexico seems to enjoy a consensus on the ultimate goal, controversy and discord surround the attempts to identify the most appropriate method to reach such objective.<sup>188</sup> One potential method, dollarization, has spurred a highly polarized and contentious debate, with some groups vehemently arguing that dollarization is the obvious remedy, while others contend with equal zeal that relinquishing the *peso* is not a feasible solution whatsoever.

With regard to support for dollarization in Mexico, the business community in general has repeatedly announced its approval of such action for three main reasons, namely (i) fear of yet another economic crisis at the end of each six-year presidential administration (*i.e.* the recurrent *sexenio*), (ii) the collapse of Mexico's domestic credit market after the *peso* devaluation in 1994, which served to exclude small and medium-sized Mexican firms from access to international capital markets, and (iii) the growing integration of NAFTA that creates demand for an arrangement (such as dollarization) that reduces transactions costs in commercial exchanges between these two nations.<sup>189</sup> In addition to this generalized support from the private sector, encouragement for dollarization is given by a wide array of groups, in-

---

186. *Id.*

187. *See Hearing/Salinas Testimony, supra* note 60; *See also Salinas-León, supra* note 80. "One d-word (devaluation) has been replaced by another d-word (dollarization)." *Id.* at 1. "Dollarization" originates from "wholly understandable concerns on how to permanently rule out exchange-rate risk, and thereby enhance the quality of a monetary system decimated by twenty-five years of depreciation, debt and stagnation." *Id.* at 1.

188. *See generally* Agustín Del Río Toffé, *Dollarization in Mexico: A Road Toward Financial Stability*, LOOKING AHEAD, Sept. 1999. Proponents of dollarizing North America have been "conspicuous in Mexico" in the last few years. *See id.* In spite of this recent support for using the dollar to solve some of Mexico's historic problems, this author explains that "[t]here are different views of how best this could be accomplished and over what timetable." *Id.*

189. Auberbach & Flores-Quiroga, *supra* note 24, at 13-15.

cluding Mexican think tanks,<sup>190</sup> economic experts,<sup>191</sup> various Mexican chambers of commerce,<sup>192</sup> academics,<sup>193</sup> and assorted Mexican government officials.<sup>194</sup> Dollarization is recommendable at this moment even though the Mexican economy has been somewhat reformed and is not currently experiencing any notable difficulties because, according to these groups, Mexico would always benefit from deeper financial integration with its northern neighbor. In fact, despite claims to the contrary, they argue that dollarization should only be implemented in Mexico while these positive circumstances prevail. It is claimed, in particular, that introducing dollarization in desperate times “does a disservice to the institution” because many countries like Mexico with economies that are doing alright “would benefit from the *immediate introduction* of [dollarization] to deepen economic integration and hence build much better growth prospects.”<sup>195</sup>

From their perspective, the advantages of dollarizing Mexico are so readily apparent that the adoption of such a measure requires little thought. In other words, the concept of dollarization is a “no-brainer.”<sup>196</sup> While recognizing that the current method used by Mexico to stabilize the economy (*i.e.* the floating ex-

---

190. Carmen Rangel, *Es opción real dolarización*, EL IMPARCIAL, Nov. 29, 1999. A study by the Centro de Investigación y Docencia Económica reveals that Mexico is ready to dollarize due to the fact that (i) it has plenty of international reserves, (ii) its economy is not overly dependent on petroleum, and (iii) it has high levels of trade with the United States. *See id.*

191. *Rechaza Fox líneas de FMI y bancos*, REFORMA, Sept. 25, 2000 (support from Rudiger Dornbusch, a professor at Massachusetts Institute of Technology).

192. Maria Zúñiga, *Exigen empresarios dolarizar*, EL NORTE, March 16, 1999 (support offered by Confederación de Cámaras Industriales (CONCAMIN); *See also* Maria Zúñiga, *Propone IP a Zedillo dolarizar economía*, EL NORTE, March 12, 1999; Ricardo Becerra, *La dolarización tomada en serio*, EL ECONOMISTA, Mar. 17, 1999 (support offered by Consejo Mexicano de Hombres de Negocios (CMHN)).

193. Judy Shelton, *No lo llamen dolarización*, EL ECONOMISTA, May 10, 1999. During a conference entitled “El reto de la estabilidad: hacia una moneda sana en México” held at the Escuela Duxx de Liderazgo Empresarial in Monterrey, Judy Shelton, a professor at this university, urged the attendees not to believe the rhetoric of those portraying themselves as patriotic and characterizing dollarization as an act of political submission. *Id.* Rather, Ms. Shelton argued that dollarization should be called (i) the search for a stable currency, (ii) the establishment of a solid monetary foundation to support an economy that is to become stronger, and (iii) the new currency in Mexico for an economy dedicated to education, innovation and enterprising spirit. *Id.*

194. *Divided About the Dollar*, THE ECONOMIST, Jan. 6, 2001. The article notes that Francisco Gil Díaz, Finance Minister of Mexico, did not deny his support for dollarization. However, Gil Díaz acknowledges that political will is lacking: “The yanqui dollar is still a hard sell for Latin American politicians.” *Id.*

195. Dornbusch, *supra* note 39.

196. *Id.*

change rate) has rendered overall positive results in the short term, other commentators warn that such a technique cannot be used forever.<sup>197</sup> Based on the temporary nature and limited scope of the current Mexican tools, this nation must choose its battles strategically. For instance, one author argues that since Mexico is unable to concurrently achieve exchange-rate parity, open the local economy to foreign investment and maintain an independent monetary policy, one of these objectives must be forsaken. Due to the fact that the first two are imperative to avoid overwhelming inflationary pressures, Mexico's only real option is to surrender autonomy in terms of monetary policy by dollarizing the economy.<sup>198</sup> Finally, other observers openly support dollarization based not on empirical evidence and economic rhetoric; rather, such advocacy is founded on irrefutable facts regarding dollarization in certain industries. According to recent studies, many large Mexican corporations have already dollarized their operations and, during the last four years, such companies experienced an annual growth rate of sixteen percent compared to the three percent enjoyed by the Mexican economy in its entirety. Observers argue that such statistics demonstrate that the superiority of the dollar is incontrovertible: "the dollarized Mexico is a much better growth performer than the peso-denominated Mexico."<sup>199</sup>

Contrary to the widespread nature of the support for dollarization in Mexico, opposition to such a measure is concentrated almost exclusively in those government officials in jeopardy of losing power with the introduction of the dollar. For instance, dollarization efforts have been criticized by the finance minister,<sup>200</sup> the subdirector of the Central Bank of Mexico,<sup>201</sup> the director of the Central Bank of Mexico,<sup>202</sup> the director of the Bank of

---

197. Del Río Toffé, *supra* note 189. "[s]o far, the Mexican experience with a floating exchange rate has been positive. . . . However, these mechanisms cannot be applied indefinitely." *See id.*

198. *Id.* at 14-15.

199. Salinas-León, *supra* note 80, at 10.

200. Bate, *supra* note 72. The former finance Minister of Mexico, José Angel Gurría, adamantly opposed dollarization and posed the following question: "Would a dollar bill with the face of Columbus be the solution? The answer is no." *Id.*

201. *Califica de prematura la dolarización*, REFORMA, June 29, 2000. Everador Elizondo, the sub-director of the Central Bank of Mexico, called dollarization a "premature proposal" because he claims that stability can be obtained via a restricted monetary policy. *See id.*

202. Cesar Romero, *Califica Ortiz innecesario dolarización*, EL NORTE, June 25, 1999.

Mexico,<sup>203</sup> the Treasury Secretary of Mexico,<sup>204</sup> and leaders of conservative political parties.<sup>205</sup> From this uniformity of voice, one may speculate that opposition to dollarization by these officials under the guise of safeguarding national well-being and/or patriotism, in reality, is nothing more than poorly disguised self-interest. Such opposition to dollarization by certain government officials, moreover, is not surprising when the historic power structure of Mexico is briefly examined. Traditionally, Mexican government officials have enjoyed considerable discretion and authority over “every aspect of economic policymaking, from fiscal and monetary policies, to specific trade or credit regulations.”<sup>206</sup> Lamentably, such power has led to abuses that business leaders, opposition political parties and non-governmental organizations have attempted to halt over many years by demanding institutional reform. When viewed from the perspective of institutional reform, the demand for dollarization represents simply “another expression of the private sector’s persistent twenty-year campaign to impose constraints on the Mexican government’s policy-making discretion.”<sup>207</sup> This campaign is a two-step process whereby (i) the power to manipulate monetary policy is first removed from the president and (ii) such power is thereafter removed from the entire Mexican government vis-a-vis dollarizing. Those government officials that would be negatively affected by dollarization have defended themselves by either rejecting dollarization outright or creating impediments to postpone the debate of such a measure. As one expert explains it, “[t]his threat to their discretionary power . . . may explain why officials in the Mexican government were not (and have not been) enthusiastic about dollarization since the opening of the debate.”<sup>208</sup> Concurring with this explanation, other experts argue that the implementation of dollarization is a “political” maneuver, which requires, among other things, overcoming intransigent government officials. Since this type of monetary reform involves

---

203. *El país se mantiene ajeno a la dolarización de su economía: Banxico*, EL ECONOMISTA, Jan. 11, 2000.

204. Lilian Cruz, *La dolarización es un sueño falso y una decisión inconveniente*, EL ECONOMISTA, June 3, 1999. Silva Herzog, the former Treasury Secretary of Mexico, said that dollarization is bad for the country because eliminating the flexible exchange rate would be tantamount to “amputating an arm” for Mexico. *See id.*

205. *See Jorge Arturo Hidalgo Rechaza PRD dolarización*, EL NORTE, April 27, 1999.

206. *Id.*

207. *See id.*

208. *See id.*

relinquishing the currency exchange rate as a tool of discretionary economic management, "there are vested interests that have to be neutralized in order to turn a viable economic policy option [e.g. dollarization] into a political reality."<sup>209</sup> Likewise, other commentators agree that although the decision to dollarize entails many monetary considerations, the issue is inherently political and must be resolved as such.<sup>210</sup>

Unlike the majority of his Mexican cohorts, President Fox has not outright rejected the idea of dollarization, preferring instead to argue that adoption by Mexico of the U.S. currency would be more beneficial in the future.<sup>211</sup> Fox stated, for instance, that while he supports an independent central bank in Mexico and the flexible exchange-rate system currently utilized by his country, dollarization appears to be a viable option within a few decades.<sup>212</sup> To justify his reluctance to openly advocate immediate dollarization, Fox emphasizes the disparity between the North American nations and the need to do some long-term planning on a multilateral level. As Fox puts it, "[t]he first step should be to sit down and think, decide where we want to be in the year 2030; where we three countries want to be . . . Because Mexico, let's face it, it is way, way, way behind the United States and Canada."<sup>213</sup>

Notwithstanding these public declarations to postpone the dollarization of Mexico, experts close to Fox speculate that, in reality, this Mexican leader is already prepared to adopt the dollar.

---

209. Salinas-León, *supra* note 80, at 3.

210. Benjamin J. Cohen, Political Dimensions of Dollarization (March 6-7, 2000) (paper presented at Federal Reserve Bank of Dallas conference entitled "Dollarization: A Common Currency for the Americas"). In economic terms, dollarization is a "positive-sum game" in which everybody wins due to (i) lower transactions cost, (ii) lower interest rates, (iii) more liquid financial markets, (iv) increased macroeconomic stability, and (v) higher growth rates and living standards in dollarized country. *See id.* By contrast, in political terms, dollarization is deemed a "zero-sum game" wherein not everybody wins. *See id.* According to the author, "[t]he political dimensions of dollarization cannot be ignored. At a minimum, they may explain why most countries still hesitate to dollarize, despite all the economic arguments in favor." *See id.*

211. *See Desea Fox apertura con América Latina*, EL IMPARCIAL, Aug. 9, 2000; *See also* Enrique Quintana, *Cómo ve al dólar*, EL IMPARCIAL, July 19, 2000; Yolanda Morales, *Crisis en Norteamérica, si se fuerza la unión monetaria*, EL ECONOMISTA, Nov. 12, 1999; Claudia Zapata, *El Euro para Europa y el dólar . . . ?* EL NORTE, Feb. 22, 1999.

212. Anthony DePalma, *Mexico Victor Faces Choices on Economy*, N.Y. TIMES, July 7, 2000, at C1. *See also* John S. McClenahan, *Not Business as Usual*, INDUSTRY WK., Sept. 18, 2000, at 11.

213. Heather Scoffield, *Fox Eyes Close Ties with Two Neighbors in North America*, WASH. TIMES, Aug. 17, 2000, at A15.



However, irrespective of his personal beliefs, without further incentives for Mexico to dollarize it is "too risky politically" for Fox to advocate dollarization at this juncture because upon doing so Fox would be labeled as anti-patriotic and "an imperialist tool to the US."<sup>214</sup> In other words, without a further inducement such as the Monetary Act that would allow Fox to safeguard his political career while simultaneously advocating dollarization, it is improbable that this recently-elected Mexican leader will support such an audacious move.

To date, to justify his decision to postpone the dollarization decision, the Fox administration has relied heavily on three main arguments, none of which seem insurmountable. First, it is argued that Mexico lacks the "preconditions" necessary to dollarize. As some experts postulate, prior to dollarizing it is imperative that a country make several changes, including (i) effective bank supervision and regulation, (ii) legal reform, (iii) fiscal reform to lower government reliance on revenue from natural resources, and (iv) changes in bankruptcy law and other legal procedures.<sup>215</sup> Other experts, by contrast, maintain that it is unnecessary to wait for reforms in these areas because "the very act of dollarizing will produce the changes needed to smooth out the operation of the new regime."<sup>216</sup> If the latter perspective is accurate, the argument by the Fox administration seems completely unsustainable. On the other hand, assuming *arguendo* that the former

---

214. See David R. Francis, *Latin America Tightens Its Ties to the Greenback*, CHRISTIAN SCI. MONITOR, Dec. 18, 2000.

215. See Del Río Toffé, *supra* note 188. See also Liliana Rojas-Suarez, What Exchange Rate Arrangement Works Best for Latin America?, Presentation Before Am. Enterprise Inst. for Public Policy Research Conference "Dollarization and Debt Markets" (Feb. 7, 2001). Rojas-Suarez disagrees with the notion espoused by dollarization supporters that "dollarization can be implemented very quickly regardless of the state of economic and financial conditions." *Id.* Prior to dollarizing, she argues, Mexico needs at a minimum to have a sound domestic banking system (while acknowledging that the idea of dollarization is "a good one," argues that the time for such an economic transformation "has not come yet" because doing so under the current conditions in Latin America "runs the risk of exacerbating a financial crisis if necessary pre-conditions are not in place." *Id.*

216. Barry Eichengreen, When to Dollarize, Presentation at Federal Reserve Bank of Dallas Conference "Dollarization: A Common Currency for the Americas," (March 6-7, 2000) There are two major views regarding the "timing" of dollarization. *See id.* On one hand, it is argued that to work effectively, dollarization must wait for complementary reforms in the banking system, fiscal position, labor market, and economy. *See id.* On the other hand, some suggest that "dollarization need not wait on these other reforms because the very act of dollarizing will produce the changes need to smooth the operation of the new regime." *See id.* Irrespective of which view is correct, this author claims that the issue of timing "is at the heart of the dollarization debate." *Id.*

premise is the correct one, the position of the Fox administration is still substantially undermined due to the fact that, while other Latin American nations may admittedly not be prepared to dollarize, Mexico has recently fulfilled the lion's share of these preconditions. For instance, a massive legal reform was commenced in the early 1990s by former president Ernesto Zedillo,<sup>217</sup> Mexico recently enacted new laws in the field of bankruptcy and secured transactions,<sup>218</sup> fiscal reform and bank supervision has come as a result of the recent bailout after the 1994 *peso* crisis,<sup>219</sup> and Mexico is enjoying relative political and economic stability after the recent presidential elections.

As a second argument invoked principally by those Mexican government officials in jeopardy of losing their personal power is that dollarizing is tantamount to relinquishing a degree of Mexican autonomy to the United States. Playing on the emotions and intense patriotism of many of their compatriots, these leaders endeavor to persuade the public that dollarizing would entail a loss of sovereignty.<sup>220</sup> According to experts, while the integration of North American economies makes Mexico an "excellent candidate for dollarization," the primary impediment is the "national pride" associated with producing the *peso*. As discussed previously, although understandable, this type of emotional argument lacks a logical basis and may be overcome by a powerful message from Mexico's new leader. In other words, "[i]f Fox could per-

---

217. See Nagle, *supra* note 79; see also Christina Biebsheimer, *At the Front Line of Judicial Reform*, IDB AMÉRICA, Jan.-Feb. 1999.

218. *Decreto por el que se reforman, adicionan y derogan diversas disposiciones de la Ley General de Títulos y Operaciones de Crédito, del Código de Comercio y de la Ley de Instituciones de Crédito*, Diario Oficial, Mexico, May 23, 2000 (the new secured transactions law); John M. Wilson, *Mexico: New Secured Transactions and Commercial Registry Laws*, 7 INTER-AM. TRADE REP. 1816-1817 (July 3, 2000); Diario Oficial, *Ley de Concursos Mercantiles*, Mexico, May 2000; Jaime Rene Guerra, *Mexican Insolvency Law: Qué Pasará?* 17 U.S.-MEX. L. J. 151, 1999; José María Abascal, *Mexico: New Commercial Insolvency Law*, 7 INTER-AM. TRADE REP. (July 31, 2000).

219. Juan Ramón Hugo, *Country Study-Mexico*, 2 IMF RESEARCH BULLETIN (Int'l. Monetary Fund), Mar. 2001.

220. Francisco Helguera Ramirez, *Si nos dolarizamos, cesion absoluta de soberania*, Revista Siempre!, Feb. 21, 2001. See also José Angel Gurría, *Mexico: Recent Developments, Structural Reforms and Future Challenges*, Fin. & Dev., International Monetary Fund, Vol.37(1), March 2000 (stating reforms include trade and capital account liberalization, increased private sector participation in key sectors, tax reforms, liberalization of the capital market and pension systems reforms. These changes, suggests Gurría, are the "key component of the structural reform process" because a healthy banking system is necessary to raise the level of domestic savings and channel them to all sectors of the economy).

suade Mexico to put aside its national pride . . . he would be making a great contribution to the future growth of the country's economy."<sup>221</sup> Regardless of the effectiveness of Fox's powers of persuasion, the evidence demonstrates that the majority of the Mexican public may have already concluded that relinquishing the *peso* (and all of the patriotic aspects associated therewith) is worth the economic stability achieved by dollarizing.<sup>222</sup>

The third argument espoused by the Fox administration to postpone dollarization is the seigniorage-sharing issue. Unlike the other two arguments put forth by the Fox administration, this concept has merit at the present time. However, if the Monetary Act were enacted to allow sharing approximately eighty five percent of the seigniorage revenue with Mexico, such argument would be completely undermined.<sup>223</sup>

Accordingly, in the absence of additional excuses by its government, Mexico would have no legitimate justification to impede dollarization. One can conjecture, in addition, that this process would be facilitated by Fox, a cautious supporter of dollarization whose past record of success has convinced many of his true potential. Pondering the question of whether the talk of dollarization of Mexico should be taken seriously, one expert answers affirmatively and explains that "Fox's vision [of further integrating North America and dollarizing Mexico within the next few decades] may sound improbable. But then, so was his election to the presidency."<sup>224</sup> Other experts agree that Fox should not be underestimated regarding his ability to persuade Mexico to dollarize. Considering Fox's ability to mitigate Mexican national pride in order to institute dollarization, it is claimed that "[o]dds are against it, of course. But after all, a little while ago, a non-PRI president was unthinkable, too."<sup>225</sup>

## V. CONCLUSION

As this article demonstrates, the advantages of dollarizing

---

221. Robert J. Barro, *Mexico: Democracy is Great, But What About Economic Reform?* BUS. WK., July 31, 2000, at 30.

222. Luis Pazos, *Los Mexicanos quieren el dolar o un peso fuerte?* EL FINANCIERO, Oct. 10, 1998.

223. Monetary Act § 4(a) (1999).

224. Geri Smith, *Fox's Dream: A North American Common Market*, BUS. WK., Aug. 14, 2000, at 56.

225. See Barro, *supra* note 222.

nations at a time when they enjoy economic and political stability are plentiful, both for the United States and the dollarizing nation. Furthermore, upon closer scrutiny, it is apparent that the arguments used by dollarization opponents to identify the alleged downsides of this process are generally superficial, untenable and easily refutable. The principal problem to date is that neither the politicians nor the public have been supplied accurate information with regard to the repercussions of dollarizing nations such as Mexico.

In addition, the need for a law like the Monetary Act was minimal when this legislation was first introduced because, until recently, the only nations to adopt this economic measure were small in terms of size and significance. This generalized ignorance of the true benefits of dollarization under the right conditions is exemplified in arguments espoused at major seminars on this topic. For instance, according to one observer,

In [r]eality, there seem to be no significant losers in the U.S.; that is, no constituencies whose material interests would be directly threatened by dollarization. But there seem to be no significant winners either . . . This explains why, until now, the debate on dollarization has hardly gotten outside the Beltway . . . In turn, this also explains why there has been little groundswell of support for the [Monetary Act] . . . Thus if the [Monetary Act] or anything like it is to get passed, public support will have to be generated, cultivated and actively managed. Advocates of dollarization have their work cut out for them.<sup>227</sup>

As this article demonstrates, times have certainly changed in that recently nations throughout Latin America have engaged in the dollarization debate, and some have opted to adopt the dollar amid precarious conditions. Such untimely dollarization will likely generate negative ramifications for the United States and should, therefore, be avoided at all costs. By establishing a plan whereby dollarizing nations are able to share the seigniorage revenues with the United States, the Monetary Act serves to foment dollarization during relatively stable periods. While admittedly not resolving all potential problems regarding dollarization,

---

<sup>227</sup>. See Cohen, *supra* note 211.

this legislation at least addresses the economic issue (*i.e.*, how to equitably divide the seigniorage), which has constituted one of the most significant obstacles to healthy dollarization in the region. For this reason, experts recognize that while the Monetary Act is not a panacea, it is, at a minimum, “a big step forward.”<sup>228</sup>

The dollarization debate in Mexico is currently quite vigorous and, as expected, opinions seem diametrically opposed. For his part, although he has exhibited a certain degree of reluctance to introduce the concept immediately in order to safeguard his political longevity, the newly-elected president Vicente Fox is an open supporter of both dollarization and increased integration between the NAFTA nations. Similarly, the dollarization movement in Mexico enjoys widespread support from a variety of groups such as the private business sector, think tanks, economic experts, academics, multiple chambers of commerce and the public-at-large. The opposition to this movement, by contrast, is concentrated almost entirely in the local politicians to whose benefit it is to maintain the status quo. The intransigent position of this political group, however, will likely be debilitated as the dollarization debate continues. Based on this dynamic, this article speculates that the enactment of the Monetary Act may serve as the impetus necessary to persuade Fox and other Mexican officials to seriously evaluate the feasibility of dollarizing this nation in the near future. Such an act, in turn, would generate the multiplicity of benefits examined in this article for both Mexico and the United States. Accordingly, notwithstanding its untimeliness when first introduced in 1999, the Monetary Act is now, without a doubt, extremely “ripe” and meritorious of swift enactment.

---

228. *Hearing on Official Dollarization in Latin America Before Subcomm. on Domestic and Monetary Policy of H. Comm. on Banking and Financial Servs.*, 106<sup>th</sup> Cong., (2000) (testimony of Guillermo Calvo, U. MD., College Park).

