Dollarization: the end of monetary sovereignty

by Gerardo Terán

It is a common mafia practice to send thugs in the dark of the night to throw bricks through the windows of a retail store, and then have a gentlemanly representative show up the next morning to sell the terrorized businessman "insurance" against vandalism. The end result: The mafia takes over the company.

The international financial equivalent of this crude blackmail operation is now afoot across the Americas, as Brazil plunged into the third week of full-blown financial crisis in late January, and many of the nations of Ibero-America follow Brazil into the maelstrom.

The most directly hit is Argentina, a member of the four-country free trade accord, Mercosur, with which Brazil conducts the bulk of its trade. In less than a week, the Argentine stock exchange fell nearly 20 points, $1 billion in reserves vanished, and the manufacturing sector most dependent on exports to Brazil began to demand that the government adopt protectionist measures and short-term solutions, to avoid a catastrophe. Last October's crisis had already idled thousands of autoworkers, but yet more layoffs have recently been announced.

As the country sinks into the quicksand, the magical solution offered by the international bankers suddenly appears: If you want to achieve exchange stability, and economic stability in general, you must do away once and for all with the principal cause of all your problems: your national currency. Simply dollarize your economies, they are told, even though this will mean you have lost all economic sovereignty.

Menem: towel boy for the bankers

It is no accident that the man charged with launching this initiative is Argentine President Carlos Saul Menem, the well-known propagandist of dollarization who had already quasi-dollarized his own country by imposing a currency board, Argentina's so-called Convertibility Plan (see box). Terrified by the early effects of the Brazilian crisis, and facing the threat that financial warfare could reach similar proportions in Argentina, President Menem floated the idea of dollarization. During a Jan. 14 cabinet meeting, Menem told Economics Minister Roque Fernández that, "to end this problem of fears of a devaluation of the peso . . . I want you to study the possibility of our abandoning the peso definitively, and entering into a totally dollarized economy."

One week later, on Jan. 21, the president of the Argentine Central Bank, avowed gnostic occultist Pedro Pou, told the press that he had been studying the proposed "dollarization" of the Argentine economy, and that such a proposal had been discussed on several occasions since July 1998, with officials of the U.S. Treasury Department and Federal Reserve, as well as with International Monetary Fund (IMF) officials, and that everyone had backed the idea. Spokesmen for these agencies, however, admit only that the idea is "interesting" and "under study."

As Martin Lagos, vice president of the Argentine Central Bank, explained in a Jan. 24 interview with the Buenos Aires daily *Clarín,* the plan is intended to calm the financial sharks, so that they will allow Argentina to survive, and in return for which they would be willing to hand over everything the sharks demand. It is necessary "to send a message to the foreigners," insisted Lagos, because "they react against Argentina abroad. In the face of a Brazilian devaluation or a Russian default, they sell off Argentine bonds and force us to raise the interest rate. . . . The message is the following: If there is any pressure, we are going to move into the higher phase of Convertibility, which is dollarization."

Later, with the classical cynicism of the lackeys who destroy national economies in the name of the international bankers, Lagos explained what this dollarization will look like. Simply, the millions of pesos in circulation, all bank accounts in pesos, even payment of wages, would all be converted into dollars through a state law which would dictate that "the peso disappears as a legal currency, and all transactions must be conducted in dollars." The benefit, according to Lagos's wishful thinking, would be "access to the discount window of the [U.S.] Federal Reserve, the body which would function as the lender of last resort for the Argentine financial system."

That is, Argentina would become another Panama, where the legal currency is the dollar, which the Panamanians graciously are allowed to call the "balboa."

As Pietra Rivoli, a professor at Georgetown University in Washington, D.C., told the Argentine daily *Página 12* on Jan. 22: "If dollarization is accepted, they will have de facto surrendered their national economic policy, and will remain subject to whatever is the national monetary and economic policy of the United States." *Página 12*'s Julio Nudler writes that "the Argentine Central Bank would disappear and the Economics Minister would be little more than a mere finance secretary. The Federal Reserve will make the decisions . . . based on the needs of the U.S. economy. It is obvious that they will not be thinking in terms of the consequences for Argentina."

As the chief economist of the U.S. National Association of Manufacturers, Gordon Richards, bluntly put the matter: "Perhaps some countries may decide that surrendering sovereignty over their currencies may be a fair trade-off to achieve stability."

Dollarization is for everyone, and obligatory

News of Menem's announcement provoked a wave of reactions. Immediately, spokesmen for the international banks not only began to spread the word, but to explain that dollarization is not an option exclusively for Argentina, but will be demanded for the entire region.

The *Wall Street Journal,* mouthpiece for the Wall Street banking establishment, published an extensive article on Jan. 18, promoting dollarization. They admit that the idea of giving up the currency may still be shocking for Americans, to whom "junking one of the most tangible symbols [sic!] of nationhood is as unimaginable as flying another nation's flag over the Capitol," but the Wall Street rag claims that for the Argentines, it has become a matter of "national pride" to avoid a recurrence of the hyperinflationary horrors of the 1980s—which were, of course, the product of IMF neo-liberal policies to begin with.

Likewise, the City of London's *Financial Times,* featured the much-quoted former Argentine economics official, now at the University of Maryland, Guillermo Calvo, claiming that "the implication of this for the U.S. could be huge. The U.S. Treasury has already begun to study the ramifications. A dollar-zone is a long way from policy, some officials say, but the possibility that the U.S. could help some economies dollarize is not dismissed out of hand." The *Financial Times* added: "Medley Global Advisors, a consultancy in New York which often accurately reflects official thinking in Washington, yesterday cited sources saying the U.S. administration 'has been pushing for dollarization as an antidote to the currency problems of the region.' The idea of the U.S. helping others to dollarize may be a difficult sell now to inward-looking politicians in Washington. But it may gain ground if the euro starts to threaten the hegemony of the dollar."

In one of his regular columns in Miami's *El Nuevo Herald,* journalist Andrés Oppenheimer says that, despite the fact that "the majority of countries in the region reject the idea" of dollarization, "there is a view growing among international economists, that the world is heading at a dizzying pace toward three monetary zones—that of the dollar, the euro, and the yen—and any country that operates outside of these will pay increasingly steeper financial costs to continue participating in the world economy."

Oppenheimer adds that, "in the face of the controversy over whether to abolish their national currencies and adopt the dollar, some international economists are launching a peculiar idea: the Zapata dollar." He concludes that "if the Latin American countries decide to dollarize their economies, the United States could help reduce nationalist objections by printing dollars with images of the revolutionary Emiliano Zapata, the independence hero José de San Martín, and the Venezuelan Liberator, Simón Bolívar."

But not only Brazil and Argentina are talking about the possibility of applying dollarization. In Mexico, the president of the Mexican Bankers Association, Carlos Gómez y Gómez, is avidly promoting the cause, asserting there is "no escape" from dollarization, and that "it would not make us lose our sovereignty but would benefit us." Eduardo Bours, president of Mexico's Mont Pelerin Society-dominated Businessmen's Coordinating Council, insisted, "We Mexicans are good and tired of going from one failure to another because of the weakness of our currency." Ricardo Salinas Pliego, president of TV Azteca and member of the Mont Pelerin Society, raved that "definitively, the peso is a piece of garbage as a currency."

Dollarization and NAFTA

The proposed replacement of national currencies is not a new project. The idea of establishing a single hemispheric Free Trade Zone, with the dollar as a single hemispheric currency, has been put on the agenda, since at least the early 1990s, with the creation of the North American Free Trade Agreement (NAFTA) among Mexico, Canada, and the

The dollar role in Argentina

Since 1991, Argentina has been under a convertibility regimen, modelled on the currency boards used under the British colonial system. In this case, the national currency, the peso, is not backed by the national economy, but maintains a fixed and immovable one-to-one parity with the U.S. dollar. Further, the Central Bank cannot exercise, by law, the role of issuing credit; it only functions in a supervisory capacity and as lender of last resort, in case a banking crisis hits the country, as happened in the 1995 Mexico crisis. During that crisis, the Central Bank handled its effects on Argentina, by handing private national banking assets over to the worst speculators among the foreign banking establishment.

Today, it is said that control of at least 80% of Argentine bank assets is in foreign hands. Some 66% of bank deposits are in dollars, and today, any Argentine—through an automatic teller machine—can withdraw dollars from his account and make transactions between the two currencies without an intermediary. Access to credit in Argentina today is absolutely dependent on the influx of dollars from abroad—that is, on international speculation.

United States, and Mercosur among Brazil, Argentina, Paraguay, and Uruguay.

In the case of Mercosur, it was again Menem who, on several occasions, proposed the first steps toward destroying monetary sovereignty. In December 1997, during a meeting of the heads of state of Mercosur, the Argentine President announced that "Argentina will encourage the creation of a single currency." His Strategic Planning Secretary, journalist and geopolitician Jorge Castro, followed on Jan. 5, 1998, with the proposal that, taking advantage of Menem's presidency of Mercosur during the first half of 1998, Argentina should "make a formal proposal for a single currency, which would have political and economic significance." At the end of that same month, at the Davos Forum in Switzerland, Menem proposed the creation of "a Mercosur Central Bank."

In April 1998, Sir Leon Brittan, the agent of Her British Majesty, serving as vice-president of the European Union, used his tour of the Mercosur countries, to advise all the countries of the region to adopt a common currency similar to the euro.

In 1998, the international financial oligarchy tried to use the economic and financial chaos provoked by the IMF, first in Indonesia and then in Russia, to impose upon these countries an Argentine-style currency board, as the only means to achieve exchange "stability." Fortunately, neither country accepted that mafiosi "offer."

Cavallo leads the charge

One of the leading promoters of currency boards has been speculator George Soros's asset, Domingo Cavallo, the former Argentine Economics Minister who implemented the convertibility plan in Argentina. In fact, Cavallo was the envoy used to try and sell the idea to the Russians last year, who failed. Now, Cavallo has come out *against* Menem's proposal to dollarize Argentina—for tactical reasons. Menem committed a "whopping error" in proposing dollarization just for Argentina, he explained. "This time, Menem's political nose failed him, for lack of advice." According to the former minister, the first thing that Menem had to have done, was to tell Brazilian President Fernando Henrique Cardoso: "Colleague, when are you going to realize that the solution for Brazil is Argentina's regimen?"

For Cavallo, the Argentine President is forgetting the ultimate objective of convertibility: "The virtue of Argentine convertibility is that it leaves open the possibility of having a common currency with the rest of the region, and that some day, this currency could prove to be better than the dollar. This way we could create a subregional Monetary Union, or we could tell the Americans: if you agree that this Union be continental and not only South America, we won't discard it out of hand." That is, according to Cavallo, the first step to be taken is the adoption of a currency board by Brazil, and from there, establish dollarization in all of Mercosur.

Commentaries

Time to go for exchange controls

Malaysian Prime Minister Datuk Seri Dr. Mahathir bin Mohamad, speech on Jan. 22 at the 50th anniversary dinner of American International Assurance company, as quoted and paraphrased in the *Business Times,* Kuala Lumpur, Malaysia, Jan. 23. *The AIG is a wholly owned subsidiary of the giant American Insurance Group. Present in the audience were AIG Chairman Maurice Greenberg and Senior Vice President and General Manager Edward Bush. The theme was "Globailize, yes, but only if there is regulation."*

"Globalization can be good—just as capital flows can be good if regulated. . . . We should welcome globalization but we must ensure that it will not be open to abuses." He said that Malaysia is unprepared for the abuses of the free flow of capital and is fortunate to have been able to deal with the "foretaste of globalization" in the form of ringgit devaluation and sudden capital flight.

"But we now see the preparations being made by the rich in order to take advantage of globalization. Huge banks, industries and utilities are being formed through mergers and acquisitions. Each of these is bigger than most of the developing countries. Each can literally swallow up these countries.

"There is no doubt that their intention is to monopolize the field that they are in. The tiny banks, industries and utilities in the developing countries will be swallowed up by them once the borders are down.

"In any case, it will not be possible to compete with these giants. Their economies of scale will be simply unbeatable." The Prime Minister added that "governments cannot protect [them]. Protection of businesses owned by nationals will be labelled cronyism and nepotism. Only foreign takeovers will be free of such accusations.

"Eventually, the foreign giants will take over everything. The competition will be among them. We will all work for them.

"Globalization can mean this. We have to ask ourselves whether we want to be employees of international foreign-owned giants, or owners and managers of our own little banks and industries."

Dr. Mahathir said "the intellectuals and social activists" are still jousting at their favorite windmills. But real thinking people, concerned nations, must focus on what is being prepared for us. We have seen what capital flows across borders can do to us. When the giant corporations of the world step