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Argentina should ditch the peso in favor of a 'hard dollar regime' to get inflation under control, think tank says

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Argentina should abandon the peso and adopt the US dollar as its local currency to get inflation under control, according to the Cato Institute.

The libertarian-leaning think tank said the currency switch would serve as a "straitjacket" on the central bank's ability to enable profligate spending by Argentine lawmakers.

"The alternative of official dollarization, whereby a country grants a foreign currency legal tender status, is the equivalent of a hangman's noose: it mothballs the central bank and fully does away with the local currency. This type of hard dollar regime is exactly what Argentina needs now," Cato researchers wrote in a [paper published on Thursday](#).

The idea of Argentina adopting the greenback has drawn attention as the country grapples with hyperinflation, a peso that has crashed against the dollar, and emergency loans from the International Monetary Fund.

A top [presidential candidate has proposed switching to the dollar](#) as a way to tame inflation, which is soaring more than 100%. Johns Hopkins University economist [Steve Hanke has backed](#)

the idea. Proponents also highlight Argentina's de facto dollarization, as consumers are already using dollars in day-to-day transactions.

Other countries use the dollar as their primary currency or alongside a local currency, including some in Latin America. If Argentina follows suit, it would be the largest economy to dollarize.

While critics of the idea pointed to Argentina's failed attempt in the 1990s to peg the peso to the dollar, the Cato Institute said that arrangement had key flaws. For instance, the central bank continued to serve as the lender of last resort, citing earlier critiques by Hanke.

The researchers also dismissed arguments about currency imperialism, loss of monetary sovereignty, and the need for macroeconomic policy flexibility.

"Whether on the right or the left, the monetary sovereigntists miss the essential point behind dollarization, which is to protect ordinary people's purchasing power from the excesses of chronically profligate politicians and often subservient—or simply incompetent—central bankers," Cato said.

To be sure, dollarization doesn't guarantee of economic growth or sound fiscal policies, it added. But the paper also noted that Latin American countries using the dollar didn't see double-digit inflation in the aftermath of the COVID pandemic, even as US inflation hit the highest levels in 40 years.

"It turns out that if you prevent the local ruling class from printing money indiscriminately, positive results begin to emerge," researchers said.