Argentina Is a Day Late and a Dollar Short

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In “Groundhog Day for Deadbeat Argentina” (Americas, Aug. 7), Mary Anastasia O’Grady points to the main problem afflicting the South American country: inflation. She also explains how, in a vicious cycle, profligate governments bring about a collapse in the national currency. We are somewhat more optimistic, however, since there is a proven solution at hand.

Dollarization, which entails replacing the local currency with a foreign one, is a time-tested way to tame inflation. By preventing the local political class from carrying out any monetary policy, dollarization is, the economist Steve Hanke argues, “equivalent to instituting the rule of law in the monetary sphere.” Further, dollarization brings lower interest rates, longer loan periods and an intrinsic budget constraint on the government, which loses its ability to monetize its debt.

In Argentina’s case, dollarization also would defuse the country’s ticking fiscal time bomb, the $30 billion liability in short-term liquidity notes. In Ecuador, adopting the dollar in January 2000 helped to restructure debts and reduce the burden of fiscal liabilities.

Since then, Ecuadoreans have elected left-wing, fiscally extravagant governments. Due to dollarization, however, their purchasing power has remained stable and their savings are no longer subject to recurrent wipeouts. Argentines, on the other hand, still suffer under a free-falling peso that has lost 65.9% of its purchasing power this year alone.

While dollarization can’t solve all of Argentina’s economic problems, it does provide a sound currency, which makes it easier for people to save, invest and generate prolonged economic growth. As the low inflation rates of Ecuador, Panama and El Salvador demonstrate, if you prevent the local ruling class from printing money indiscriminately, positive results begin to emerge.

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