

Dollarization: Reassessing The Case Of Ecuador

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Abstract

This paper looks at the benefits and costs attributable to Ecuador's decision to dollarize its economy during 2000. It shows that the benefits of dollarization are more long term in nature and quite difficult to measure; however, Ecuador was shown to have attained a degree of credibility, which translated into lower rates of domestic inflation. Additionally, it was shown that Ecuador has obtained increased access to foreign credit during the years immediately following dollarization. Some of the costs looked at included the loss of independent monetary policy, global competitiveness, loss of lender of last resort ability, seigniorage costs, and various other startup costs. In all, it was shown that seigniorage loss was the most influential of the costs, while losses of independent monetary policy and lender of last resort ability may entail few, if any, actual costs for non-credible governments, and, therefore, serve a primarily beneficial purpose. Finally, the paper looked at the future of dollarization and Ecuador and postulated that dollarization has had minimal overall impact on Ecuador's economic and political atmosphere.