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DOLLARIZATION: SOME THEORETICAL PRELIMINARY THOUGHTS

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RESUMEN En este artículo se argumenta que la dolarización introduce una *asimetría fundamental* en la forma cómo la política macroeconómica puede —o no puede— ser conducida. Cuando las cosas van bien, es perfectamente posible enfriar la economía y conducir una política keynesiana contracíclica estándar. Sin embargo, cuando las cosas van mal, una política expansionista contracíclica no puede ser ejecutada, lo cual complica la probabilidad de ser capaz de acomodar la demanda creciente de billetes y evitar un caos financiero. Todo esto posee profundas consecuencias distributivas y, en particular, favorece a la clase *rentista* —capitalistas financieros—, haciendo imposible —o extremadamente difícil— acercarse a la eutanasia keynesiana del *rentista* en favor de un proceso más sostenido de progreso económico y social. Estas conclusiones se basan en la perspectiva teórica clásica de Smith, Ricardo, Marx y Sraffa.

PALABRAS CLAVE Dolarización, teoría monetaria, historia del pensamiento económico, preferencia por la liquidez en efectivo, eutanasia del rentista

ABSTRACT In this article, it is argued that dollarization introduces a *fundamental asymmetry* in the way how macroeconomic policy may —or may not— be run. When things are going well, it is perfectly possible to cool the economy and run a standard countercyclical Keynesian policy. However, when things are going wrong, an expansionary countercyclical policy cannot be implemented. This complicates the likelihood of being able to adjust the increasing demand for bills and avoid financial chaos. All of this presents serious distributive consequences, and, particularly, favors the *rentier* class —financial capitalists— by making it impossible, or extremely difficult to approach the Keynesian euthanasia of the *rentier* in favor of a more sustainable process of social and economic progress. These conclusions are based on the classical theoretical perspectives of Smith, Ricardo, Marx, and Sraffa.

KEYWORDS Dollarization, monetary theory, history of economic thought, liquidity preference, euthanasia of the rentier.

JEL CODES B51, E41, E52, N10.

INTRODUCTION

The theoretical literature on dollarization is not that abundant. Much has been written on currency boards, monetary unions, common currencies and the alike – various forms of limitation of monetary sovereignty. Dollarization as such —the decision of a country to give up

with its own currency and adopt the US dollar as unit of account, means of exchange and store of value— has not attracted so much theoretical attention. With few exceptions,[1] the field has been left, so to speak, to practitioners —central bankers, international institutions—. In this paper I am going to propose a broad theoretical reflection on dollarization, its consequences, costs and benefits. Of course, this cannot be but a starting point, a stimulus offered to those who are willing to contribute to fill this theoretical gap.

MONEY AND INTEREST RATES

THE DOMINANT VIEW

The issue of money neutrality[2] —or «super-neutrality» or «long-run neutrality»— is an «issue» only within a Commodity-Money-Commodity' —henceforth, C-M-C'— economy, where money is essentially a medium of exchange and not much more.[3] In this world, which is the world of Real Business Cycle (RBC) models —neo-classical— and to a large extent of Dynamic Stochastic General Equilibrium (DSGE) models —neo-Keynesian— as well[4], agents are endowed with some commodities C —labor power, capital, houses, etc.—, sell them to get money (M) to be used to buy some other commodities (C'), with the purpose of ending up better off (utility maximization).

In this marginalist world, quantities, prices and distributive variables —the real wage and the real interest rate— are all *simultaneously* determined in a general equilibrium setting.[5] The simultaneous determination of all these relevant variables is the mathematical counterpart of the extraordinarily powerful Walrasian metaphor of the auctioneer (Walras, 1874): people *first* meet in the Market Square; with the help of the auctioneer an equilibrium price is established in *every* market —in a simultaneous manner—; and then, *only then*, concrete productions and exchanges may take place.[6] In particular, in the capital —«financial»— market an equilibrium *real* interest rate is established, such that households' willingness to save coincides with firms' investment plans. This equilibrium real interest rate is said to be «natural» —after Wicksell, 1898— in that it ultimately depends on «deep» and structural determinants, *i. e.*, people's inter-temporal preferences and the technology in use: things you cannot change in a day.

It is important to know that the Wicksellian natural interest rate constitutes the core of the modern theory and practice of central banking. Indeed, the well-known *Taylor rule*[7] is nothing but an application of this idea: a «too high» inflation rate tells the central bank that the market real rate is too low compared to the —unobservable— natural rate and that, therefore, the central bank must increase the short-run nominal rate it has the power to decide. Sooner or later, depending on how rapid is the central bank in the application of this —or similar— rule, the economy will be back to the natural interest rate. It is maybe even more important to realize which the distributive implications of this view are. Who is going to be remunerated from that natural interest rate? Who is the «capitalist» in this perspective? The capitalist *is* the saver; the capitalist is not the owner of the means of production. The capitalist is whoever decides to subscribe a newly issued firm's bond or share. The saver, whatever the specific security she decides to subscribe —a bond or a share— is in any case allowing the issuing firm to increase

its capital stock —machineries, buildings, and so on—. The interest rate paid on a bond may differ from the dividend rate paid —or retained, this is not the issue— on a share because of risk considerations, but the *economic* nature of the two payments is absolutely the same. The saver and the capitalist are one and the same thing, as well as the —natural— interest rate and the profit rate are one and the same thing.

«Capital» —just have a look at the very famous book by Piketty, 2013— coincides with «wealth», *i. e.,* accumulated savings. Clearly, if capitalists are savers and the interest and profit rates essentially coincide, there is no room in this analytical framework to analyze any form of conflict/cooperation between «industrial capitalists» and «financial capitalists». Between the Banker and the Entrepreneur. There is no room to understand money and therefore no room to understand «dollarization». The very notion of «finance» is vague and flawed when it comes to the C-M-C' economy: McCallum (1989) introduces his Monetary Economics text by making this explicit and extremely clear:

> [...] in making their borrowing and lending decisions, rational households (and firms) are fundamentally concerned with goods and services consumed or provided at various points in time. They are basically concerned, that is, with choices involving consumption and labor supply in the present and in the future. But such choices must satisfy budget constraints and thus are precisely equivalent to decisions about borrowing and lending - that is, supply and demand choices for financial assets. [...] Consequently, there is no need to consider both types of decisions explicitly. [...] it is seriously misleading to discuss issues in terms of possible connections between «the financial and real sectors of the economy», to use a phrase that appears occasionally in the literature on monetary policy. The phrase is misleading because it fails to recognize that the financial sector is a real sector. (McCallum, 1989, pp. 29-30)

SOME ECONOMIC HISTORY

As described above, the C-M-C' world fits in a world where there is a «natural» interest rate, where every market is in equilibrium, where profits are maximized, where savers and capitalists are the same individuals, etc. In other words, the C-M-C' world is compatible with a society where, when in equilibrium, everyone is capable of reaching agreements with one another, and nobody has any inventive to change —remember Pareto's optimality—. This is how society achieves «harmony».[8] However, the actual history of capitalism is far from the harmonious idealism of the C-M-C' world given that capitalist societies are not based on «harmony» but instead, they are based on struggle. There are periods when capitalism seems to achieve «harmony», however, when those periods lead for the working class to have increased wages and improved life conditions that exceed the limits tolerable by capital accumulation, «harmony» is then displaced by a higher spoliation of the working classes.[9] Therefore, before providing a brief description of the roles of (central) banks, money and interest rates in real capitalism, let me give some «evidence» of the «crude» reality of this mode of production through a very short description of what happened in the world's most advanced economies from the end of World War II onward.

In the period 1945-1975, the «Golden Age of Capitalism», the «social democrat pact» or compromise, Keynesianism as the dominant intellectual paradigm,[10] high and stable growth

rates. Above all, full employment and the rapid increase in wage shares, the liberation of one or two generations of workers from the tyranny of subsistence, the rise of trade unions and their power. Not only that: on top of income distribution, also risk distribution was at stake.

In the '70s, perhaps under the influence of the «capital controversy», started with Robinson's critique to the «aggregated production function» (Robinson, 1953, 1954), and developed with the Sraffian results —Paul Samuelson (1966) recognized that Sraffa (1960) was right—, the slogan of trade unions was «wage as an independent variable».[11] In other words: whatever it may happen, jobs and decent real wages are to be guaranteed, and the risks of economic activity must fall on capitalists' larger shoulders. That was also the period in which in several European countries communist parties were stronger than ever —in some cases they reached their top of more than one third of the electorate—. That was maybe too much. Too dangerous. One way or the other, the disciplinary mechanism *par excellence* —sacking people— had to be reactivated. Something had to be done. And it was.

At the end of the '70s, the neoliberal[12] counter-revolution moved its first and decisive steps. A completely different world was created: 1979-2007. Falling wage shares almost all over the world —maybe with the exception of some Latin American countries during the commodity-boom, but this is *another*, important story—, and certainly in the rich Western economies; the demise of trade unions; the collapse of gross domestic product (GDP) average growth rates —with the exception of China and the Asian tigers, another different and important story—, dramatically lower than their «Golden Age» counterparts; the end of full-employment; the increasing power of *rentiers* —financial capitalists— *vis-à-vis* workers *and* industrial capitalists —interests as an increasing share of the overall profit share—, a disconnection between industrial profits and investments in real capital —the so-called «shareholder value orientation»[13]— increased the fraction of profits distributed in the form of dividends and that used by Chief Executive Officers (CEOs) to buy-back shares to boost their prices and then CEOs' bonuses; dramatically increasing debt-financed households' consumption —the sub-prime story is only an extreme and «end-of-period» manifestation of this generalized trend—, favored by the falling wage share —how can I buy a car?—, the rising asset prices —my car and my house will be themselves a good collateral— and the «originate and distribute» strategy of commercial banks —let's make a loan to NINJA guys, *No Income No Job and Assets*; we will then distribute the risk by selling derivatives and the alike, admittedly an extraordinarily creative version of the world-oldest receipt: privatization of profits and socialization of losses—: last but not least, deregulation and liberalization of international capital flows.

These defining feature of the 1979-2007 phase have rightly induced some scholars to label this period as that of «financialization» (Hein, 2014). All in all, the 1979-2007 world has nothing to do with its predecessor, the 1945-1975 world.[14] Now, what was the origin of this radical reversing of the world history? Are «monetary things» —money, interest rates, central banks, dollars, etc.— somewhat related to the transition from the Golden Age to «financialization»?

BACK TO THE CLASSICS (WITH A BIT OF KEYNES)

If real capitalism implies struggle, economics should not be a technique used to only deal with scarcity: as a matter of fact the problem of allocating scarce resources as efficiently as possible

is a problem that the Man of the Stone Age, the Landlord of a feudal society and the CEO of General Electric must all face and solve. Economics, according to Adam Smith, David Ricardo, Karl Marx and, much later, Piero Sraffa, is the science of capitalism, of a specific mode of production based on struggle.[15] In that mode of production, first of all, capitalists are not savers, but owners of the means of production and decision-makers. Steve Jobs was a capitalist, a small saver holding some equities or bonds issued by Apple is not. The purely juridical fact that in modern economies shareholders are «households» does not mean absolutely anything. Small shareholders are not decision-makers. They are just savers. Almost the totality of commodities we buy in whatever supermarket around the world are produced by firms where the large majority of shareholders does not have any say at the hour of taking decisions. Second, the dynamics of capitalism is decided by capitalists, and not by a supposedly «sovereign consumer». Joseph Schumpeter may help:

> Railroads have not emerged because any consumers took the initiative in displaying an effective demand for their service in preference to the services of mail coaches. Nor did the consumers display any such initiative wish to have electronic lamps or rayon stocking, or to travel by motorcar or airplane, or to listen to radios, or to chew gum. The great majority of changes in commodities consumed has been forced by producers on consumers who, more often than not, have resisted the change and have had to be educated up by elaborate psychotechnics of advertising. (Schumpeter, 1939, p. 47)

Once we accept this Schumpeterian view, the next step is to understand whether there is a difference between the economic logic driving consumer's behavior and that underlying capitalists' decisions. We can certainly accept the postulate according to which consumers behave according to a C-M-C' logic. However, there is little doubt that a capitalist is a subject who must anticipate some money (M) to buy some commodities C —labor power, intermediate inputs, etc.— in order to produce other commodities C' to be sold in the market and make *more* money (M'). Making more money, realizing a *monetary* profit: this is the ultimate purpose of any capitalist on the face of the Earth. And having some money to begin with is a *conditio sine qua non* to realize a monetary profit. Therefore, as pointed out by Marx (1867), capitalist societies are not driven by commodity circulation of the C-M-C' type. The main objective of capitalism is to turn out a profit, which is immediately visible when the total amount of money used in circulation increases. It happens in a different type of circulation: Money-Commodity-Money' —henceforth, M-C-M'—. As Marx wrote:

> The circuit C-M-C starts with one commodity, and finishes with another, which falls out of circulation and into consumption. Consumption […] is its end and aim. The circuit M-C-M, on the contrary, commences with money and ends with money. Its leading motive […] is therefore mere exchange value.
>
> In the simple circulation of commodities, the two extremes of the circuit have the same economic form. They are both commodities, and commodities of equal value. […] It is otherwise in the circulation M-C-M, which at first sight appears purposeless […] Both extremes […] are […] money, and therefore are not qualitatively different use values […] exchanging money for money, the same for the same […] appears to be an operation just as purposeless as it is

> absurd. One sum of money is distinguishable from another only by its amount. The character and tendency of the process M-C-M, is therefore not due to any qualitative difference between its extremes, both being money, but solely to their quantitative difference. More money is withdrawn from circulation at the finish than was thrown into it at the start […] The exact form of this process is therefore M-C-M', where M' = M + ΔM = the original sum advanced, plus an increment. […] It is this movement that converts [money] into capital. (Marx, 1867, pp. 160-161)

An M-C-M' world is radically different in nature from the C-M-C' world. In a barter economy —or in C-M-C' economy where money is regarded «as a mere link between cloth and wheat», as Keynes used to say—,[16] you must have good A to buy good B and you must have good B to buy good A. In a monetary economy, things are different: you must have money to buy a good, but you need *not* to have a good to get money. Actually, that was the great intuition of Keynes – understanding that, in a monetary economy, the nature of the exchange is different.[17] Keynes obtained such intuition precisely while he was studying Marx's circulation schemes:

> [Marx] pointed out that the nature of production in the actual world is not, as economists seem often to suppose, a case of C-M-C', *i. e.*, of exchanging commodity (or effort) for money in order to obtain another commodity (or effort). That may be the standpoint of the private consumer. But it is not the attitude of business, which is a case of M-C-M', *i. e.*, of parting with money for commodity (or effort) in order to obtain more money. This is important for the following reason. The classical theory supposes that the readiness of the entrepreneur to start up a productive process depends on the amount of value in terms of product which he expects to fall to his share; *i. e.*, that only an expectation of more product for himself will induce him to offer more employment. But in an entrepreneur economy this is a wrong analysis of the nature of business calculation. An entrepreneur is interested, not in the amount of product, but in the amount of money which will fall to his share. He will increase his output if by so doing he expects to increase his money profit, even though this profit represents a smaller quantity of product than before. (Keynes, 1933a, pp. 81-82, as quoted in Bertocco, 2013, p. 318)

A decent entrepreneurial project, in the M-C-M' world, could be enough, provided you are judged as being creditworthy from those who have the «power to produce» M, from those who can provide you with «the money to begin with». Those who have the «power to produce» M… this is exactly the origin and the nature of the interest rate in classical economics: a *rent*, which is by definition the remuneration of a privilege, of a specific power. Banks, central or commercial, are given this power.[18] As any concrete entrepreneur in our concrete world perfectly knows, the interest rate is a subtraction from her «surplus»: you sell your stuff, then you have to pay interests on past loans, then what remains will be somewhat divided between you —the industrial capitalist and the workers. In other words: the interest rate is the price to be paid to a «landlord», to a «moneylord», it is a rent.[19] The interest rate is not a magnitude determined by people inter-temporal preferences and the technology in use. It is rather determined by the extent of that privilege, it depends on the way of exerting that power. It does not have any *direct* relation with technology. As Sraffa (1960) clearly put it, the interest rate is determined *outside* the sphere of production and then a «natural» interest rate simply does not exist. Or equivalently, this time let me use Keynes, the interest rate is a purely monetary variable (Keynes, 1936, p. 355)[20] —of course you can always calculate a real rate out of the nominal choice of the

central bank, but the result is not to be compared with a non-existent natural rate—.

If the interest rate is determined outside the sphere of production, it cannot be considered the remuneration of capital. Rather, exactly like the rent to be paid to a landlord, it is the crucial variable affecting what remains to be distributed between industrial capitalists and workers. When the monopolistic privilege of the «moneylord» goes up, the interest rate increases as well. In turn, this is likely to slower capital accumulation —industrial capitalists are not happy with giving up a larger fraction of the results of their efforts and creativity to bankers-landlords—, even more so in a context of increasing wages. At the same time, slower accumulation and eventually real output contraction are the most effective way of weakening workers and their organizations when they are becoming too strong. In a «short run», the process of making workers weaker makes it possible to recover profits of industrial capitalists. However, in the «long run», economic growth could be negatively affected if the aggregated demand is «wage-led» (Bhaduri-Marglin, 1990).

This is *exactly* the turning point between the Golden Age and financialization: we all remember —especially in Latin America— the Volcker era of very high interest rates. They translated, as expected in light of the Classical theory, in slower accumulation, higher unemployment and then falling wage shares, as well as higher income shares accruing to bankers and financial companies —«financialization»—. Output growth stagnated in several countries —most probably aggregated demand was «wage-led»— but for a while this did not constitute a big problem for capitalists: financial capitalists were happy by definition, whereas industrial capitalists were getting a larger slice of a smaller cake —what remains after having paid the banker-landlord—. The net result was a *higher* profit rate for industrial capitalists too. Sure, exaggerating is always dangerous. After one or one and a half decade of falling wage shares, industrial capitalists realized that Say's law does not hold. Debt-financed households' consumption was then essential to sustain aggregate demand. Of course, this multiplies the power of the banker and his claim on national income —financialization, once again—. And exaggerating, once again, may be dangerous: households may default —this is 2007-2008—, some big banks go bankruptcy and aggregate demand collapse. The banker, once again, is in charge of rescuing capitalism. This time, his name is not Volcker, but Bernanke-Draghi. This time, his job is not to increase, but lower the interest rate. This time, capitalism is to be saved not from the attacks of workers and communist parties, but from the insatiability of the *rentier*.[21]

Industrial capitalists always oscillate between *Scilla* and *Cariddi* —the claim of workers on the one hand and those of *rentiers* on the other—. Both claims may be destructive from the perspective of the industrial capitalist who is, at the end of the day, the pillar of capitalism. Neither workers nor *rentiers* could survive without the industrial capitalist: production cannot take place *desarmata manu* and there would not be any cake to suck from without letting the industrial capitalist a sufficiently large slice. Central bankers, as a consequence, also oscillate between *Scilla* and *Cariddi*. Their job is to preserve capitalism and its crucial actor, the industrial capitalist: sometimes they have to punish workers; some others to kill *rentiers*.[22] Monetary policy is a *policy* in the first place. Monetary policy and monetary arrangements are, as Volcker perfectly knew, a way of governing income distribution.

DOLLARIZATION

In light of the previous observations, what are the deep consequences of dollarization? When an economy, especially a small economy, is open to international capital flows —to the global vagaries of liquidity preference, I would say—, the power of a central bank to affect the whole structure of interest rates, and then the pattern of income distribution, is severely limited. However, this is true for any small economy, be it dollarized or not. On the contrary, when an economy is relatively closed to international capital movements, the central banker is more powerful and may truly affect the structure of interest rates and then the profile of income distribution. And, once again, this is true for dollarized as well as non-dollarized economies. In short, in a world in which money is endogenous —that is, banks can create money *ex nihilo* through loans which create deposits—[23] and the relevant power of central bankers is not to fix quantities —money supply— but prices —the structure of interest rates—, the possibility to effectively exert this power does not depend on dollarization as such.

However, the above does not mean that dollarization does not constitute a serious limitation of sovereignty. It does, but it is important to understand that it is especially so *during recessions*. Let me elaborate on this crucial point. Consider a dollarized economy, and imagine an entrepreneur asking for a loan to a commercial bank. As any other commercial bank in the —non-dollarized— world, this bank may certainly create *ex nihilo* a deposit in favor of the entrepreneur and, so to speak, activate the Keynesian multiplier.[24] Correspondingly, the central bank of the dollarized economy may certainly lend the required reserves to the commercial bank at an interest rate of its choice —in other words: commercial banks may and do create deposits *ex nihilo* in favor of their clients and central banks may and do create deposits *ex nihilo* in favor of theirs, *i.e.*, commercial banks—.

Up to now, then, we cannot see any relevant difference between the case of a dollarized and the case of a non-dollarized economy. In both cases, as far as cash is not taken into consideration and economic agents accept to be paid with bank deposits —transfers, credit cards, debit cards and checks—, central banks seem to be able to run an independent monetary policy, *i. e.*, to fix the interest rate commercial banks must pay on borrowed reserves. Limitations to this power seem to come from constraints other than dollarization as such, for instance from some high degree of openness of the capital account of the balance of payments. Sure, things might be different to the extent that the demand for cash —banknotes— plays an important role. After all, this is what in a dollarized economy cannot be printed: cash, banknotes. It is —obviously— wrong and misleading to claim that a dollarized country cannot print «money». No, a dollarized economy *can* create money —in the form of bank deposits, as we saw—, but cannot print banknotes. This is clearly a problem to the extent that people are willing to hold banknotes —let me put it even more clearly: in a hypothetical dollarized economy where people were not interested in holding cash in their wallets and under their mattresses, dollarization would not constitute a problem—.[25]

So, going back to our example, is there any reason why people, after the decision of the central bank to make a loan to the entrepreneur, should increase their preference for cash? The preference for cash —I do repeat: holding banknotes in your wallet and under the mattress— is likely to increase in a depressed economic environment: when things are going bad,

and not when things are going well. In an expansionary phase of the economic cycle —things are going well— the preference for cash —and, more broadly, liquidity preference— is likely to stay constant or even fall. Under such circumstances, again, dollarization as such does not constitute a problem. The economy is expanding, there is no reason for people to hoard money in cash form and, unless the external constraint becomes more stringent —which might happen in whatever economy, dollarized or not (see note 25)—, there are no incentives at work to move to a different monetary regime. Now, unfortunately an expanding phase is not endless. Sometimes due to exogenous factors —the end of a commodity boom, for instance—, some others due to endogenous factors —as we saw in the first part of the article, in capitalism, expansions are usually accompanied by rising wage shares and then a potential fall in the macro profit rate—, expansions may turn into stagnation and eventually cyclical downturns. This is where dollarization shows its worst face.

Unless you believe in RBC models and then in the «optimality» of cyclical ups and downs, a recession should be faced with some kind of expansionary macro policy. Which one? A sort of competitive devaluation —the attempt at stimulating net exports— is to be ruled out by definition under a dollarized monetary regime. Expansionary monetary policy? The central bank may certainly try to lower the interest rate it can control —typically, the rate on borrowed reserves— to convince commercial bankers and entrepreneurs to invest more. However, this attempt is very likely to be frustrated because of two reasons. First, during a downturn private agents —households and firms— are especially worried to raise finance in order to repay accumulated debts rather than consume and invest; second, during a recession liquidity preference is likely to increase and in a dollarized economy, as the Ecuadorian case clearly shows, this takes the form of a higher preference *for cash* —people withdraw from their bank deposits—. Accommodating this rising demand for cash is difficult and may become dramatically so: authorities become inevitably worried about improving the balance of payments and the most rapid and effective way to do so is… to accommodate the recession —to cut on imports—.[26]

What about an expansionary, counter-cyclical *fiscal* policy? In other words: is it conceivable a scenario in which the central bank creates deposits *ex nihilo* in favor of the government and the latter spends more to reactivate the economy? Once again, unfortunately it is not. The reason is the same as before: during a recession cash preference goes up and it becomes then imperative for political authorities to satisfy this rising demand, to avoid financial chaos. Whatever expansionary policy, monetary or fiscal, is too dangerous in that it risks to worsen the balance of payments. Could the government issue bonds and ask its citizens to subscribe them? No, for the same reason.

In sum, dollarization introduces a fundamental *asymmetry* in the way macro policy may —or may not— be conducted. When things are going well —maybe too well— and liquidity and cash preference are likely to fall, it is perfectly possible to freeze the economy and conduct a standard Keynesian counter-cyclical policy. The central banker of a dollarized economy may mimic Paul Volcker and punish workers. However, when things are going bad and liquidity and cash preference are on the rise, an expansionary counter-cyclical policy cannot be conducted, in that it would compromise the likelihood of being able to accommodate the rising demand for banknotes and avoid financial chaos. The central banker of a dollarized economy

cannot mimic Ben Bernanke and Mario Draghi and kill the *rentier*. The Keynesian euthanasia of the *rentier* becomes practically impossible under a dollarized regime —needless to say, it is quite complicated under any regime—.

DOLLARIZATION VS. COMMON CURRENCY

It is perhaps useful to propose a final thought on the similarities and differences between the case of a dollarized economy and the case of an economy sharing the same currency with others. Ecuador and Italy, Ecuador and Spain, Ecuador and Greece. Of course, I would not say Ecuador and Germany, since Germany is the US.

Is there any *conceptual* difference between Ecuador and Greece —Italy, Spain— After all, in the euro area interest rates are now at an historical minimum and it seems that *rentiers* are unhappy. So, the temptation is strong to conclude that Ecuador and Greece are not the same thing. When the head of the European Central Bank (ECB), Mario Draghi, finally decided to put in place a low-interest-rate policy —and in any case it must be remembered that this happened *much later* compared to the famous Quantitative Easing of the FED and at a very high price: the representatives of the German *Bundesbank* in the ECB Directorate resigned…—, *de facto* he was restituting to the central bank its role of lender of last resort.

This is, admittedly, a great difference between Ecuador and Greece. The FED is acting as lender of last resort in Panama, not in Ecuador. Killing the *rentier* is possible in Panama and Greece, whereas it seems to be impossible in Ecuador, unless the FED decides to be a lender of last resort for Ecuador. However ostracized by the Germans and somewhat ineffective, an expansionary monetary policy *is* possible in Greece; it is *not* in Ecuador. Things are different, however, as far as fiscal policy is concerned. In this case, Ecuador and Greece are the same thing. From the Maastricht Treaty to the far stricter rules of the EGSP —European Growth and Stability Pact, where reference to «growth» is at best ironic—, the big worry of the German has always been to prohibit any expansionary fiscal policy.

Historical evidence, then, teaches us an important lesson: dollarization is certainly an even more drastic limitation of sovereignty compared to a common currency. The *fundamental asymmetry* I was mentioning in section 3 is certainly stronger under dollarization than under a common currency. In both cases, expansionary fiscal policies are essentially prohibited when they would be most useful; it is only in the case of dollarization, however, that expansionary monetary policies are also prohibited.

CONCLUSION: ENDING WITH DOLLARIZATION?

A change in a monetary regime is somewhat always dramatic. It only comes at a cost, whatever the direction of the change. That said, the end of dollarization could come alone —there is just no more cash to accommodate public demand for it— or could be planned —of course, wise politicians should not *announce* it in the midst of a regime with free capital movements—. The first scenario would be the most dramatic. The second is somewhat desirable. Ecuador is paying a too high price, since the fundamental asymmetry I elaborated on in the previous

sections means that the country is left without counter-cyclical policies when they would be mostly needed. Even worse, fiscal policy is *de facto* pro-cyclical.

It should be clear from the arguments developed in this preliminary reflection, based on a reappraisal of the classical theory of distribution —section 2—, that those who are mostly interested in maintaining the status quo are the *rentiers*: dollarization, to them, is a kind of life insurance. Max Weber was certainly right when claiming that, in capitalism, «development», whatever we mean by this demanding word, is impossible without a decent bourgeoisie,[27] and a too heavy weight of the *rentiers* constitutes an obstacle to the process of economic and social development.

There are only two possibilities that they could accept a change in the monetary regime. One is some kind of external imposition, something similar to what happens in the euro area —we must do this and that because «Europe is asking us to do this and that»—. The other is a truly *national* plan, involving all the forces of the political spectrum, to be thought and implemented *during a booming phase of the economy*. Needless to say, both possibilities are very much unlikely and the risk clearly exists to get to a «spontaneous» end of dollarization.

NOTES

1 Some exceptions, from mainstream economics, are the works of Alessina and Barro (2001) and Dornbusch (2001). For more (theoretical and empirical) references on dollarization the work of Saamoi (2011) can be recommended.

2 According to Hayek, «the term 'neutral money' […] was apparently first used by Wicksell, but more or less incidentally, and without the intention to introduce it as a technical term» (Hayek, 1931, p. 129). In the sense exposed by Hayek, «neutral money» means a situation when money does not influence the relative value of commodities. This means that «money remains *neutral* relatively from goods» (Hayek, 1931, p. 31, italics in original). For more details on the origins of the term see Patinkin and Steiger (1989). The modern conception of «monetary neutrality» can be associated with Friedman, as, for him «the monetary authority controls nominal quantities […] It cannot use its control over nominal quantities to peg a real quantity» (Friedman, 1968, p. 11).

3 A C-M-C' economy was first described by Marx, particularly in *A Contribution to the critique of the political economy*, chap. 2: «Money or Simple Circulation» (1859) and in *Capital, vol.1,* chap. 3: «Money, or the circulation of commodities» (1867). Marx described the C-M-C' economy as a «simple commodity circulation» (Marx, 1859, p.350) or «simple commodity production» (Marx, 1894, p.260). Actually, Marx brought interesting insights about the C-M-C' economy, particularly about problems in effective demand. For example: «If the continuation of the process of circulation meets with obstacles, so that M must suspend its function M-C on account of external circumstances, such as the conditions of the market, etc., and if it therefore remains for a shorter or longer time in its money form, then we have once more money in the form of a hoard, which happens also in simple commodity circulation whenever the transition from C-M to M-C is interrupted by external circumstances. It is an involuntary formation of a hoard. In the case at hand money has the form of fallow, latent money capital» (Marx, 1885, p. 84).

4 See Romer (2006) for an example of a Real Business Cycle model where cycles are driven almost completely by technological shocks. See Benassy (2010) for some examples of DSGE where «rigidities» on nominal wage and price adjustments are used to explain unemployment and the possible effectiveness of economic policy to improve efficiency.

5 A basic neoclassical principle applies, even in the more sophisticated general equilibrium models: distributive variables —ex. wages, interest rates— are determined by the marginal productivity of the

factors paid during distribution —ex. labor power, capital—. This means that distribution, in equilibrium, depends only on technology —marginal productivity— and other «fundamentals» —such as preferences between consumption and leisure in the case of labor power, and preferences between present and future consumption in the case of capital—. Usually it is argued that this dependence of distribution on marginal productivity was first proposed by von Thünen (1850-1863) —although he did not use the term— which was popularized by Clark (1899).

6 For an interesting criticism to the concept of the Walrasian auctioneer and some implications for the neoclassical economy see Hodgson (1992).

7 As proposed by Taylor (1993), originally the *Taylor's rule* was an econometrical relationship between the short-run nominal interest rate, the rate of inflation, and the deviation of GDP from a target (Taylor, 1993, p.202).

8 The idea of «equilibrium» in economic thought has a really long history. For a historical review see the work of Tieben (2009).

9 It could be possible to associate this idea with what Marx called the «general law of capitalist accumulation» (1867), and with the formalization of that «law» presented by Goodwin (1967).

10 It must be noted that the dominant «Keynesianism» of those years corresponds to the interpretation of Keynes formulated especially by Hicks (1937). Actually, Joan Robinson referred to this and similar interpretations as «bastard Keynesianism» (Robinson, 1962).

11 Some theoretical attempts to justify this position of «wages as the independent variable» can be found in Emmanuel (1972) —also based on Sraffa's results—. Particularly, Emmanuel says that «here and now, the equilibrium wage is something given, an independent variable […] we call this "something given" institutional because it is based upon man himself, as a physical and social being, upon men's needs and "demands on life," as they have been shaped by a very long and slow process, in which the principal immediate agent is the accumulated body of traditions and habits» (Emmanuel, 1972, p. 128). This justification is based on Marx's idea that «In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labor power a historical and moral element» (Marx, 1867, p. 181). In Emmanuel's interpretation, that «historical and moral element» can be determined especially by trade-unions and political interventions. For more details on this point see De Miguel (2014).

12 It should be noted that maybe the origin of the term «neoliberalism» comes from Ludwig von Mises, when he proposed that: «The older Liberalism [älteren Liberalismus], based on the classical political economy, maintained that the material position of the whole of the wage-earning classes could only be permanently raised by an increase of capital […] Modern subjective economics has strengthened and confirmed the basis of this view by its theory of wages. Here modern Liberalism [neuen Liberalismus] agrees entirely with the older school» (Mises, 1932, p. 19). However, the modern use and conception of the term «neoliberalism» has not been formalized. As suggested by Venugopal: «While there are many who give out and are given the title of neoliberal, there are none who will embrace this moniker of power and call themselves as such» (Venugopal, 2015, p. 15).

13 For some theoretical reflections about the possible effects of the «shareholder value orientation» on growth and investment see Stockhammer (2005). In particular, Stockhammer argues that «firms are not simply victims of the rentiers, but the firm is the battleground of the conflict of interest» (2005, p. 213).

14 I am taking 1979 as a symbolic turning point. The crucial dates are 1979, 1980, 1981: Margaret Thatcher, Ronald Reagan, and Helmut Kohl. UK, USA and Germany, the three countries which substantially and formally —in terms of voting power— dominate international financial institutions —IMF, WB, WTO—.

15 As described by Marx: «In the domain of political economy, free scientific inquiry meets not merely the same enemies as in all other domains. The peculiar nature of the material it deals with, summons as foes into the field of battle the most violent, mean and malignant passions of the human breast, the Furies of private interest» (Marx, 1867, p. 10).

16 See Keynes (1933a).

17 «Keynes (1933b, p. 85) describes the fluctuations of effective demand that give rise to booms and depressions as 'a monetary phenomenon' in as much as these fluctuations depend on the particular

characteristics of money used in a monetary economy» (Bertocco, 2013, p.319). Those «particular characteristics of money», according to Bertocco (2013) would be: a) «labour cannot be turned on at will by entrepreneurs to produce money»; and b) «as the exchange value of money rises there is no tendency to substitute some other factor for it» (Keynes, 1936, pp. 230-231).

18 It would be interesting to compare this idea with Marx's *primitive accumulation of capital* (1867, chap. XXVI) and even with Harvey's *accumulation by dispossession* (2004). Both are processes that help capitalists to obtain the «initial money» necessary to reproduce the M-D-M' cycle.

19 This distribution of 'surplus' can be found also in Marx (1894, parts V-VII).

20 Keynes explicitly attributes this idea to Silvio Gesell (see Keynes, 1936, pp. 355-356).

21 For some reflections on the financial crisis of 2007-2008 and, in particular, the concrete participation of Banks, see Mishkin (2011).

22 Remember the «euthanasia of the rentier» mentioned by Keynes (1936, p. 376).

23 See Lavoie (2014, chap. 4).

24 The value of the Keynesian multiplier may be extremely low due, for example, to a very weak productive structure and a high propensity to import. However, these problems do not have very much to do with «dollarization». Not directly, at least.

25 It is wrongly believed that the external —balance of payments— constraint in a dollarized economy is harder —more heavily binding— than it is in non-dollarized economies. This is, by the very same definition of external constraint, a very bad mistake. Being indebted in a currency you cannot print is a problem for everyone, dollarized or not. In both cases, indeed, the central bank cannot act as a lender of last resort.

26 Also they could increase foreign debt, postponing the problem for the future.

27 «The universal reign of absolute unscrupulousness in the pursuit of selfish interests by the making of money has been a specific characteristic of precisely those countries whose bourgeois-capitalistic development, measured according to Occidental standards, has remained backward» (Weber, 1905, p. 21).

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