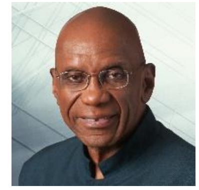

Economic Letter July 2019

Sovereignty and the US Dollar

The one question which always surfaces in response to my lecture "The time has come to permanently retire all our Caribbean currencies" (search for this title on Youtube) is about national sovereignty. Most people seem to believe that sovereignty is "lost" with the retirement of the local currency. On the contrary, replacing domestic currency and deposits with US currency and deposits gives everyone in the country wider access to goods and services. With domestic currency you can buy only local goods and services; with US dollars you can purchase from anywhere in the world, wherever you can get the best value for your money.

The fact of the matter is that the US dollar is sovereign in international transactions, and there is nothing than can be done about that. Even China, the world's second largest economy, with 15 percent of global GDP to the US's 24 percent, accepts payments in US dollars. A Jamaican travelling to Haiti, a Guyanese to Suriname, a Dominican to Guadeloupe, a Trinidadian to Barbados, all take US dollars with them. All hotel rates and oil and commodity prices are quoted in US dollars.

Ironically, having a domestic currency in today's digital world may make a country more susceptible to US sanctions than a fully dollarised country would be. Iran and Cuba, countries which are currently subject to harsh US sanctions, both have domestic currencies. The sanctions are effective because Cubans and Iranians earn in a local currency whose value continues to fall because the country's access to US dollars is limited.

The US reaps tremendous benefit from the fact that its currency is in universal use. Countries which have their own currencies all maintain a reserve of foreign exchange at their central banks with which to protect the value of domestic money. Those reserves are mostly held in US treasury securities, and constitute a loan to the US Government. However, a country like Panama which has no currency of its own does not have that problem. Such accounts as the Panamanian Government may hold with the US Federal Reserve are solely for the purposes of facilitating payments with foreign countries. Dispensing with an own currency means the government no longer has a reason to make a substantial contribution to the financing of the US Government's deficit.

The bottom line is that rather than impairing national sovereignty, replacing the domestic currency empowers the country and its citizens by giving access to the world's goods and services, to the full extent of their incomes. Moreover, the country has no need to offer credit to the world's wealthiest nation, in order to maintain the value of domestic financial assets.