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Perhaps spurred on by popular opposition to free trade agreements (see other story in this edition) with the US, Canada, or the European Union (EU), drums have begun to beat for replacing the national currency, the lempira, with the dollar. Such a change would make Honduras the third Central American country to adopt the measure after Panama and El Salvador (see NotiCen, 2001-12-14).

Honduran economist and businessman Carlos Urbizo Solis ticked off the accelerated depreciation of the lempira and Central Bank undisciplined fiscal policy as more than sufficient reasons to adopt the measure. He said dollarization would force the state to have a healthy fiscal policy, reduce inflation to that of the US, and reduce interest rates to the 8% or 9% available in the US from the 20% current in Honduras. The dollar would also restore confidence in the economy. Urbizo also said that changing the currency would not be a panacea for all that ails the country financially and that it would be necessary to concurrently establish policies to improve productivity through a change in attitude and culture.

While a transition to hard money has its critics, he insisted that to deny the benefit on technical grounds, like the lack of international reserves, "is like telling someone to wait till he's healthy before going to a doctor. If all these things were in place, if we had US$3.2 billion in reserves, if we had fiscal discipline, if we had a monetary policy that benefits the public, we wouldn't be talking about dollarizing; dollarization is spoken of because these conditions don't exist." He also took on those who argue against it on sovereignty grounds. For him, the opposite is true; if the country had a "ton of dollars," it would be really independent and sovereign. He said that the only thing current policy has produced is 80% poverty and that devaluation halts productive investment.

While Urbizo was making his argument in San Pedro Sula, another business leader, Jaime Rosenthal Oliva, held forth in Tegucigalpa with a similar argument. Rosenthal, too, took the position that the need to dollarize is based on the imperative that the people have confidence in the system to generate internal savings for the country's development. "What is essential to develop a country is the confidence the people can have in their currency, in their judicial system, in their police, and within that, internal savings," said Rosenthal. "The creation of capital depends on the confidence the people have in their money."

Rosenthal turned to neighboring El Salvador as an example. There, they have a housing program similar to one that the Honduran government has wanted to start. But a poor person in Honduras would have to pay an interest rate of 15%, or 225,000 lempiras, over the 20-year life of the loan. According to Rosenthal's calculations, the same person in El Salvador would pay 100,000 lempiras over the same period. Only two groups benefit from devaluation, continued the argument: those who borrow in lempiras and convert to dollars, and the Central Bank, largest holder of dollars in the

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country. Workers and poor people belong to neither group. They bear the burden of devaluation, paying for dollar-denominated imports, including gasoline and electricity generated by fossil fuels.

Disputing earlier statements from the president of the Comision de Banca y Seguros Ana Cristina Mejia that financiers would benefit most from the change, Rosenthal countered that, while it was true that the financial sector would benefit, so would everyone else, including the government, which would otherwise be left to bail out the banks if they were to fail from the consequences of devaluation.

Turning for another example to Ecuador, which has also gone to the dollar, he said that the GDP there has grown much faster than has that of Honduras even though Ecuador waited until its economy was virtually crippled to do it, "and bananas in Ecuador continue being competitive because it is easy to increase irrigation and improve transport systems because the money is cheap so more can be invested." As to resistance to change within the population, he chalked that up to misinformation. People don't read enough, he said, "and we are trying to maintain the same concepts that were current long ago. To the extent that globalization has occurred, the system has changed." He harkened back to when protectionist policies guarded the system, but without protectionism, the creation of risk capital is key to the survival of the system.

While the arguments are forceful, and the need to shore up the economy to meet the requirements of the present era is great, the wisdom of dollarization remains a question for most international observers, among whom there seems to be general agreement that the experience of El Salvador and Ecuador (see NotiSur, 2002-01-25) is too short for useful extrapolation. Even Panama, where the economy has been effectively based on the dollar for most of its history, had a devastating financial squeeze during the 1980s.

A forum sponsored by the German foundation Friedrich Ebert Stiftung, Advantages and Disadvantages of the Dollarization of the Economy in Honduras, concluded that the change would bring more disadvantages than benefits. A July 2002 synopsis of the forum by Union Network International says, "Honduras does not have a basic currency account to keep a dollar reserve and substitute the lempira for that currency." That is the crucial element that Rosenthal and Urbizo dismissed as trivial. If the country doesn't have sufficient hard currency reserves to exchange for the lempiras in circulation, then it will have to devalue the lempira to make the equation balance. So instead of the gradual erosion over time that Rosenthal and Urbizo seek to remedy, the currency would crash in a single stroke.

While the benefits cited by its advocates are likely real, there is still another disadvantage. The Central Bank's ability to set monetary policy disappears, an important tool in times of crisis. The country would be saddled with monetary policy set for and by the US, a vulnerability that would overhang national security forever. Dollarization is irreversible.

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