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Ecuador’s Assembly Rushes Monetary Code and Take First Steps Away from Dollarization

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In response to an urgent request from President Rafael Correa, Ecuador’s Asamblea Nacional (AN) approved a monetary-financial code with strict monetary controls. The current fiscal expenditures of this South American country without a currency of its own could soon lead to a period of illiquidity.

Arguing that the 2008 Montecristi Constitution (NotiSur, Aug. 8, 2008, and Aug. 29, 2008) established the need for creating a state-regulated financial system as a public service, President Correa sent a bill to the AN asking for swift deliberation and approval within a maximum of 30 days.

In the six years since the new Constitution went into effect, there had been no interest in creating a new monetary code. The presidential request to approve the bill quickly came as a surprise because it was made as the country’s citizens were focused on the World Cup in Brazil and weren’t paying much attention to domestic politics. Deputies approved the new code on July 24 with 91 votes from the ruling-party members who said there had been adequate time to debate the 180-page text with its 520 articles, 18 general provisions, 37 reformatory provisions, 30 derogations, and 41 transitional provisions.

The speed at which the code was approved, the lack of citizen participation, and the immense powers the code gives a single body whose decisions cannot be challenged since it has complete immunity created a barrage of criticism. Since approval, analysts have tried to discover the true motivation behind such hasty approval of a code that should have involved all sectors of society, or at least should have been given a reasonable amount of time for debate.

A lack of liquidity?
The national budget for this year tops US$33.3 billion and, according to the Correa administration, is tied to the government’s nationwide social-investment program (NotiSur, June 14, 2013).

Major investments are notable in infrastructure: road construction and public buildings for the judicial, education, and health sectors. All the investments require large cash flows since, as political analyst Jorge León points out, Ecuador’s development is based on government spending with cash flow driving growth estimated at 4% this year. Liquidity, distributed among the workers of all government projects, will help activate the economy through the purchase of goods and investment in savings plans.

This development model explains the rapid growth of the bureaucracy, since, as economic analyst Pablo Dávalos points out, administrative expenses account for more than US$9 billion. "We’re not talking about new teachers, new doctors, or more people working on major projects such as hydropower plants," Dávalos said. "These are bureaucrats working in state agencies and other institutions that account for the US$9 billion. These bureaucrats are needed to maintain the ruling party’s momentum."
Ensuring liquidity for an uncertain future would require sustaining fiscal spending and investment because loans from China have been reduced, emigrant remittances are down, and production has not grown, either for domestic consumption or exports. "Our development is not based on an increase in production, and we depend on the export of raw materials, León said.

Under this scenario, the new monetary code gives the government the power to control the financial system’s liquidity and, when necessary, to access private deposits or those generated by social security. To that end, it is pushing for an additional law that will allow it to control severance and retirement funds held by some of the country’s most important unions and professional organizations.

**Betting on de-dollarization?**

Economists close to the government, such as René Báez, and even those in the opposition say the monetary and financial code approved by the AN has tools that can be used in case chaos arises in the financial system. The question is what kind of chaos might emerge in the future.

Báez doesn’t specify what type of chaos might occur. Meanwhile, Dávalos, as well as Alberto Acosta, who formerly served as this administration’s economy minister, warn of the possibility of a lack of liquidity, which could bring public works investment to a halt, resulting in layoffs of thousands of bureaucrats needed to maintain the ruling party’s power and continue its political project.

In countries with their own currency, one way of dealing with a lack of liquidity is to print more money and thus devalue the dollar. Ecuador can’t do this, or at least it hasn’t been able to until now. The monetary code would create electronic money, managed via cell phones and backed up by real dollars held by the Central Bank.

Dávalos said that having a currency, whatever it is called, other than the dollar—even one backed by that currency—gives the country a system of convertibility. The use of parallel currencies creates a system that is not dollarization since electronic money is a distinct currency that can multiply or be issued without having enough fluid backing in the Central Bank (NotiSur, Sept. 15, 2000).

Electronic money is one of the elements in the monetary code that will allow the country to survive a liquidity crisis, and, at the same time, it is a way of beginning an orderly end to dollarization under state control.

**Capitalism and the role of the banks**

Another recurring discourse to justify the approval of the code blames the banks and bankers for the financial crisis that other Latin American countries and some European countries have experienced. If the bankers are so bad, asks Antonio Acosta Espinosa, president of the Banco del Pichincha, why don’t they throw us out of the country and bring the banks under state ownership?

If the government claims are based on fact, one can’t say the approved code has a socialist perspective or aim for the banks to exclusively provide a social function. On the contrary, as Alberto Acosta says, state intervention and economic control is currently necessary to swiftly and safely reproduce a capitalist system. Banks and bankers, which President Correa attacks publically, are necessary to guide the country’s productive systems.

State intervention has been key to increasing extractive activities thus keeping the country dependent on the flow of export prices. This explains why major investments have been made in
mining but not in export substitutions such as the Pacific Refinery, a project that could respond to domestic demand for petroleum products and save foreign exchange.

According to this line of thought, the Código Monetario is not being presented as an alternative to capitalism, rather as a new instrument of state control that the government will use to deepen the capitalist system, improving the flaws of the failed neoliberal system and ensuring the reproduction of capital under the phantasmagorical image of fiscal investment.

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