

Macro Roundup Article

Headline: [Pro Dollarization](#)

Article Link: <https://johnhcochrane.blogspot.com/2023/11/pro-dollarization.html>

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Summary: Precommitment is, I think, the most powerful argument for dollarization (as for eurorization of, say, Greece): A country that dollarizes cannot print money to spend more than it receives in taxes. A country that dollarizes must also borrow entirely in dollars and must endure costly default rather than relatively less costly inflation if it doesn't want to repay debts. Ex post inflation and devaluation is always tempting, to pay deficits, to avoid paying debt, to transfer money from savers to borrowers, to advantage exporters, or to goose the economy ahead of elections. If a government can precommit itself to eschew inflation and devaluation, then it can borrow a lot more money on better terms, and its economy will be far better off in the long run. An independent central bank is often advocated for precommitment value. Well, locating the central bank 5,000 miles away in a country that doesn't care about your economy is as independent as you can get!

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