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Dollarization in Latin America: The Social Cost of Monetary Stability

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Abstract

Economic crises have frequently plagued Latin America, prompting various corrective measures that have often exacerbated the problems. One such solution has been the replacement of the local currency with a more stable and economically and financially robust currency, in this case, the US dollar. After 25 years of dollarization in Ecuador and more than 20 in El Salvador, it is necessary to evaluate its outcomes, particularly the social costs associated with this process. Investigating this issue is the objective of this article. To this end, a documentary research project was conducted, compiling information on dollarization in Panama, Ecuador, El Salvador, and Venezuela to establish comparisons and support the final argument. It was observed, except in the case of Venezuela, that variables such as inflation and GDP were controlled, stabilizing the economy, although serious social problems persist, such as high levels of poverty, inefficient electricity supply, informal employment, crime, violence, and low purchasing power, stimulating the emigration of many Venezuelans to other countries. It was concluded that dollarization has not been sufficient to improve the individual economies of citizens, making it essential to simultaneously implement coherent public policies aimed at strengthening not a specific macroeconomic indicator, but the entire socioeconomic system of the country, with solid, credible, and reliable institutions, and above all, educating the population in respect for the rule of law and productive work that generates value for the markets and the population in general.

Keywords: Social cost; Dollarization; Monetary stability; Emigration; Institutions

Introduction

The dollar, as a hegemonic currency, has exerted a decisive influence on the global economy throughout its tenure. In the last 30 years, the phenomenon of dollarization has emerged with particular strength, especially in Latin America, aiming to convert the dollar into the local currency, reserve currency, unit of account, and means of payment within a domestic economy. On the other hand, as a critique of the inefficient outcomes of currency substitution, an inverse process known as dedollarization has recently been proposed with increasing frequency. This process signifies the return of dollarized economies to a local currency system and to the central bank as the core of the payment system. In this context, the present review seeks to identify the reasons why poverty persists in these countries despite the substitution of the native currency with a foreign one as part of economic public policies, based on the cases of Panama, Ecuador, El Salvador, and Venezuela. The adoption of the dollar as the official currency, with its characteristics as a shelter asset or efficient means of payment, has always been preceded by severe economic crises, inflation, hyperinflation, constant devaluations, financial instability, interest rate imbalances, fiscal deficits, political conflicts, deterioration of citizens' purchasing power, and, consequently, societal impoverishment, as noted by Agenor & Montiel [1]. Such is the case for Panama, Ecuador, El Salvador, and Venezuela. Although each sovereign decision entails important, specific differences, these circumstances triggered a total or partial shift from the local currency to the US dollar, with the ultimate aim of stabilizing national economies. The methodology used in this research is documentary, relying on secondary sources. Although an extensive literature on these and related topics is currently available, only a selection was reviewed, highlighting, for example, the pending tasks of Ecuador, the institutions involved, and the lessons that can be drawn from this experience, based on Chicaiza De Ampuero, the insufficiency of dollar cash flows to cover the repurchase of the national currency, attend to urgent imports, and, above all, sustain the local payment system in the context of the Venezuelan situation, as discussed in Hausmann [2,3]. The concepts of dollarization, trends, and its different types, as addressed in Caprio and Hanson, the situation of dollarization in Cambodia in the last decade of the past century is also considered, presenting a synopsis of the most relevant concepts of dollarization, particularly the significant dollar cash flow outside the conventional banking system, as well as the costs, benefits, and implications of such a decision, as discussed in De Zamaroczy & Sa [4-6].

Regarding dedollarization, despite the decreasing share of the US in global production and exports, the dollar maintains a significant presence in the volume of currencies and invoicing. Additionally, there is a pronounced decline in international dollar reserves in other countries, as well as in fixed-income instruments and energy markets, where many contracts are denominated in currencies other than the dollar, prefiguring a possible hegemonic shift towards other currencies, as stated by JP Morgan [7]. Additionally, and from another perspective, the analysis considered the political and economic factors surrounding the phenomenon of dedollarization among countries such as Brazil, Russia, India, China, and South Africa (BRICS), according to El Zein, the problems generated after currency substitution, as addressed in Vasconez and an overview of the evolution of dollarization in Latin America from 2000 to the present, analyzing seven emblematic cases and the possible dedollarization of these economies, which is the main focus of Roura [8-10]. In addition, a detailed description of the dollarization phenomenon in some Asian countries is presented, as well as the dedollarization process, according to Kubo & Low [11]. The structure of this research outlines the modalities of dollarization, its advantages and disadvantages, the risks faced by economies that have decided to implement currency substitution, followed by a discussion of the importance of cash flows and costs throughout all stages of the process. Subsequently, the role of institutions as part of a systemic order is addressed, and, as a corollary, in addition to presenting comparative figures among the case studies, demographic aspects, labor perspective, and economic performance are highlighted, all of which are reflected in significant imbalances. The evidence reviewed demonstrates that, despite currency substitution over prolonged periods, poverty and inequalities persist in the four countries considered in this study, which has led to significant emigration in many of them.

Methodology or Procedures

The methodology applied in the study corresponds to a documentary type, supported by secondary sources, through the review of referential studies and the use of digital platforms such as Google, the International Monetary Fund (IMF), the World Bank (WB), the United Nations (UN), among others. The calculations used to create the various tables showing trends in the selected macroeconomic variables were taken from the World Bank Group, UCAB, Datosmacro, Indexmundi, CEPAL, and the BID, which made it possible to establish the criteria used to address the objective set out [12-15]. Additionally, a brief review was conducted of recent proposals on the topic in question. In some cases, the information is scattered and not very homogeneous, especially with regard to data from Venezuela. However, this does not detract from the precision and reliability of the analysis, allowing for a clear understanding of the effects of the results on national economies after dollarization.

Results Analysis and Interpretation

Changes in payment systems

The central basis of a payment system is currency, or the asset chosen as such. Throughout the economic history of civilization, there have been successive replacements of one payment system by another, of one means to perfect exchanges by another, as part of the economic and financial evolution of human groups. Examples include the introduction, in ancient times, of money as a medium of exchange, as well as the shift from metallic coins to banknotes. Similarly, the later use of gold and silver as useful goods to facilitate transactions in international trade should be mentioned. Another example is the establishment of the gold standard, which introduced significant changes in the payment system, generating some confidence and stability in trade and economies until its collapse after the first major global conflict. It is important to mention the implementation of the gold-dollar system after World War II, which remained effective until August 1971, when the convertibility of dollars into gold was suspended, giving rise to the current fiduciary system, in which each government of each country backs its respective national currencies. In all these cases, the aim was economic stability and efficiency in the transactions of goods and services, but there was always a considerable amount of fear, uncertainty, and anxiety among the population due to the substitution of one system for another.

Public policies

Public policies constitute the operative governance system of countries, the decisions and actions that the State, through governments, implements to regulate and control the behavior of individuals and organizations. Above all, however, they should always pursue the benefit of the population, of the country's citizens. Development is the result of efforts to "improve the living conditions of economic agents in general," by steadily and increasingly raising per capita incomes and, especially, by reducing poverty among the population. Therefore, coherence and coordination in government decisions are essential requirements for solving countries' internal difficulties, Londono [16]. That is why the application of a public policy in isolation often produces adverse effects, more harmful than the problems it seeks to solve, Erazo [17]. In the case of economic policies, negative results are perceived almost immediately, and their effects are generally systemic.

Dollarization as public policy

The replacement of an unstable local currency by a strong foreign one, to facilitate transactions and exchanges and protect citizens' wealth, is a complex event involving political power, economic conditions, and society's confidence in the existing monetary system, United States Congress [18]. These transitions, these processes of substituting one system for another, always involve instability, economic and financial losses within the communities of economic agents involved, generating distrust, uncertainty, and often panic. However, since the early 20th century, many countries have opted to replace their currencies with the dollar as the backbone of their monetary systems; generally, these have been small countries with weak economies or with a high economic dependence on the United States, United States Congress [19]. By way of illustration, Palau, the Marshall Islands, and the Federated States of Micronesia can be mentioned, as shown on United States Congress, as well as El Salvador and East Timor. The objective of this economic public policy is to control the fiscal deficit, reduce inflation, and eliminate the negative effects of devaluation. Seldom is the ultimate goal to increase and sustain the purchasing power of the population and reduce poverty, as it is assumed that these distortions will automatically disappear upon implementation of the monetary measure.

Modalities of dollarization

To address the modalities of dollarization, several sources related to the topic were reviewed, among which De Rosa stands out, who states that “There are two forms that lead to dollarization: (i) De facto (unofficial or de facto) and (ii) Official (de jure).” A similar criterion is found in Llerena Sarsoza, Beckerman (n.d.), De Zamaroczy & Sa, Inter-American Development Bank, Ben Naceur, and Wilkis [20-24]. Of the four cases studied, Panama, Ecuador, and El Salvador are formal or “de jure” dollarizations. The case of Venezuela represents an example of “de facto” or informal dollarization, which is quite particular. In general, all these decisions to substitute the local currency have a legal basis, both for international purposes and for domestic regulations. In the case of Panama, the Taft-Arias, Morales Agreement, and its ratification in 1904, is the law that formalizes the use of the dollar as legal tender, coexisting with the Panamanian balboa. On January 9, 2000, President Jamil Mahuad decreed the dollar as the official currency of Ecuador, according to Llerena Sarsoza and the Inter-American Development Bank. On the other hand, in El Salvador, the adoption of the US dollar as the official currency was based on Legislative Decree No. 201, dated November 30, 2000.

Regarding Venezuela, on September 7, 2018, through BCV (2018), Article 2, “the free convertibility of the currency throughout the national territory” was established. This was endorsed by the repealing decree, which stated in National Constituent Assembly, of the previous exchange agreements that affected this activity, thus accepting the spontaneous substitution of the bolivar by the dollar in almost the entire country [25]. However, in border regions, transactions already took place with the Brazilian real and with gold (the so-called “gram of gold”), especially in the Guayana area, while along the borders with Colombia, the means of exchange was the Colombian peso. Later, in an attempt to reverse the spontaneous dollarization, the Venezuelan government activated penalties for the use of unofficial dollars, according to Singer [26].

Advantages and disadvantages of dollarization

Dollarization is applied when the monetary authorities of a country are not able to maintain the value of their local currency or to create a new one that allows the basic functions of money to be exercised, Princeton University Press [27]. It can be said, then, that dollarization is the recognition of the inability of the country’s central bank to stabilize and protect the national currency, so it must be removed from circulation. As with any economic and financial decision, dollarization presents two opposing facets; on one hand, attractive benefits that drive its application, while on the other, drawbacks and problems—some of which become apparent immediately, and others that arise over time. Therefore, it is a matter of evaluating what the country gains and what it gives up when dollarizing its economy. As for the benefits of its application, aspects such as the elimination of the possibility for the State to issue money without real backing are included, which would stop inflation by imposing monetary discipline, considered one of its most important achievements. Additionally, in reference to the dollarization of El Salvador’s economy, the main motivations and objectives of this decision were explained, such as the elimination of exchange rate risk, to protect international reserves, De Rosa. An important aspect was to reduce bank interest rates, extend the terms for loan repayments, facilitate access to credit, and decrease financial pressures on both individuals and companies, to boost the economy and thus preserve the society’s purchasing power, De

Rosa. Furthermore, to keep inflation at a rate similar to that of the United States of America and to attract foreign banks to the country to promote competition among providers of goods and services, benefiting the economy and decreasing "country risk," Jacome & Lonnberg [28].

Dollarization involves the immediate elimination of the nation's central bank or a significant reduction in its main functions, including seigniorage. This would prevent the State from obtaining gains through expansive monetary policies, drastically limiting its ability to manipulate the value of financial obligations denominated in the national currency, depreciate the exchange rate, or generate inflation, Jacome & Lonnberg. Common sense dictates that, in things created by man, there is no perfection nor, even less, immutability. That is why all humanity must deal with bias, approximation, mutability, and change. This problem arises from the number of elements that influence the ecosystem where human beings have established rules, processes, and, in general, dynamics that allow survival, of which man can only master or know a tiny fraction. The above is often evident in matters of economics, finance, and even accounting. Taking as examples the concepts of dollarization and central bank, it can be said that they are useful for achieving certain objectives, especially macroeconomic ones, in certain circumstances, which may change at any time due to the multiplicity of variables that can converge in a specific economic reality. To think that, with one or the other instrument, the economic imbalances of a nation will be resolved is, at the very least, a bold idea.

Institutions as part of a systemic order

An essential condition for either mechanism to work—in order to achieve economic stability and sustainability—is that these tools must be applied together with other measures that provide them with practical support and cohesion. If applied in isolation, disconnected from other measures and factors, the most likely outcome will be a complete failure, especially if the ultimate goal is the benefit of the people, the citizens, and the nation as a whole. Balancing macroeconomic variables is an intermediate step toward the greater and more general objective: the well-being of the population. The president of Ecuador, when deciding to replace the sucre, asserted that "the decision to dollarize was the conclusion of an orderly and rigorous process that we designed in our government." This statement led to the conviction that dollarization was the best and only possible economic alternative Llerena Sarsoza. However, a counter-argument stated that by "January 2000, the necessary fiscal and financial conditions, nor the accounting practices required by a dollarized system, did not exist... It was not a decision made under controlled conditions to assure its success", Beckerman (n.d.). The contrast between these two analytical perspectives would later have real effects on Ecuadorian household economies.

Risks of dollarization

The world has experienced processes in which a military power imposes its hegemonic currency, only for it to later be replaced by another due to various circumstances of global dynamics. Between the 16th and 19th centuries, the "Spanish dollar" (real de a ocho) was the first global currency, which lost its relevance after the fall of the Spanish empire, following approximately three centuries of dominance Persiva & Ortiz, Perez V. [29,30]. Subsequently, by the mid-18th century, the rise of the British Empire imposed the pound sterling in its domains, maintaining strong influence until after World War II, Santos, Eichengreen [31,32]. The Bretton Woods agreements at the end of 1944 established a new exchange system that strengthened the dollar's hegemony in the world economy, Samuelson & Nordhaus, until August 15, 1971, when the United States ended the dollar's convertibility to gold, Perez, which gave way to the use of flexible exchange rates for fiat currencies, Larrain B. & Sachs and Feliu & Sudria [33-36]. Much has been said about a new world order, with the BRICS group as the most recent possibility of a change in the pattern of international payment systems, Garzon, Guerrero [37,38]. These examples show that, from time to time, a dominant currency is replaced by another when circumstances dictate. Hypothetically, the dollar and the United States could face such a situation.

Recently, the dollar has depreciated by about 11% against the most important currencies of the global economy and those of emerging Latin American countries; its sharpest drop in the last 50 years Rallo [39].This is due to the high public spending and accumulated debt of the United States, a situation aggravated by recent incidents related to tariff controversies in international transactions originating in North America and conflicts in the Middle East, which have increased uncertainty in international markets Storm AI. (c) and Perplexity Open AI [40,41]. In a scenario such as the one described—of a possible fall of the dollar or its replacement as the global hegemonic currency—not only would countries that hold large amounts of this currency in their international reserves suffer, but those countries that adopted the dollar as their official currency would be severely affected, causing a serious internal crisis and uncertainty during the adjustment process to the arising changes.

Cash flows and costs of dollarization

Like any complex process, the substitution of one currency for another generates multiple costs. In the case of formal dollarization, the most important source of potential losses is the adoption of the exchange rate for the repurchase of the domestic currency. Additionally, the costs of public consultations, the approval of laws, and the period during which both currencies coexist must be considered, as well as changes in accounting and banking systems, improvement of pre-existing institutions, or the creation of new bodies, along with the adjustment of prices of goods and services, including wages. All this will generate costs that must be evaluated not only in their magnitude but also in their effects on the general economy and their consequences for family economies Gruben [42]. On the other hand, if the model is informal or spontaneous dollarization, implementation costs are also generated, although to a lesser extent, since costs and resource consumption are inherent to all human events. Therefore, it is essential to have a robust, constant, timely, and sustainable flow of funds, of the new currency with greater international financial strength, to cover such costs and generate surpluses to honor future obligations. In the case of countries, this is generally measured through national accounts, exports and imports, as well as the balance of payments, which allow control over general economic activity Mankiw, Samuelson & Nordhaus [43]. The validity of the previous argument applies not only to the implementation of dollarization but also to the proper functioning of any other monetary and exchange control tool, such as the central bank and, in general, the entire national economy.

Once the decision to dollarize is made, one of the first actions in the process will be to repurchase the local currency in circulation, held by the public, at an exchange rate referenced to the circumstances of the moment, thus requiring a significant and sufficient amount of foreign currency Gruben. But after this, it is immediately necessary to ensure, continuously, a flow of more dollars to serve the daily operations of the national economy. These dollars, in any model, must be generated by the country, both internally and externally; otherwise, even if macroeconomic variables are balanced, the ultimate goal of the common good cannot be achieved. For this, the decision must be accompanied by other measures that provide support and coherence to dollarization to achieve the superior national objective; otherwise, if it is only an isolated policy, the crisis will continue and may worsen.

Comparative figures

The four cases reviewed in this study had pre-existing conditions before their respective crises, which, although different from one another, generally had important similarities. If we start from the premise that balancing macroeconomic variables is a step in the process of improving citizens' purchasing power and raising their standard of living—especially by keeping them as far away from poverty as possible—comparisons can be made between the changes that occurred since the start of dollarization and the current situation of national economies after the replacement of the local currency. Next, a series of comparative tables is presented for the different countries under study, referring to certain macroeconomic indexes and demographic variables that reflect, in some form, weaknesses or situations of weakness that could increase or return to the critical pre-existing state that dollarization sought to resolve, and the reasons why other major imbalances persist.

Demographic aspects

This section presents those indexes related to the country's population, which, in a certain sense, indicate trends in these areas. The total population by country, the poverty index, the migration rate, and the Gini index are shown. Unlike other regions, Latin America shows a growing trend in terms of population numbers. Table 1 shows the populations of the cases under study for the years 2000 and 2024 (Table 1). It can be observed that, in countries where formal dollarization was chosen, poverty rates decreased significantly, with a segment of the population benefiting from this decision. This measure was implemented in a structural and coherent way alongside other policies aimed at achieving a significant improvement in national economies as a whole. However, this also meant giving up seigniorage and thus the discretionary management of local monetary policy. Nevertheless, it could not be determined that these improvements in the population are directly related to dollarization. Moreover, beyond these results, Panama, although it has significantly reduced its poverty, still presents a high rate in indigenous regions, reaching 76%, as expressed in Storm AI. (b) [44]. In the case of Ecuador, although this rate has decreased considerably, there persists a 10% rate of extreme poverty in rural and indigenous areas, Storm AI. (b). The figures for El Salvador, despite having reduced its poverty rate in just over 20 years, reveal that the population's situation continues to be precarious, with a rate of 27%, since many pre-existing economic challenges have not been resolved. These challenges are mitigated somewhat by remittances from abroad, while the adoption of Bitcoin, as part of the economic solutions proposed by the national executive, has yet to produce significant results, according to Storm AI. (b).

On the other hand, in the case of Venezuela, it is evident that a macroeconomic policy instrument such as dollarization, when executed informally and in isolation, is not sufficient by itself to balance the most important macroeconomic variables, which deepens existing imbalances. Such is the case with poverty, which has increased to alarming levels. The analysis of the migration rate, shown in (Table 3), when contrasted with the poverty rates of each of the countries studied, revealed weaknesses in the behavior of the variables analyzed. Although dollarization in Panama has been in place for over a century, by the year 2000, the country exhibited a negative migration rate, indicating that many Panamanians were moving abroad in search of better living opportunities that they could not find within their own country. However, during the first two decades of the 21st century, Panama has experienced an increase in immigrant inflows or, from another perspective, a decrease in the outflow of Panamanians moving abroad. This has led to a significant improvement in the migration index, as shown in (Table 2,3). Regarding the case of Ecuador, before dollarization, the outflow of Ecuadorians to foreign countries was high, but it has decreased in recent years. Nevertheless, by 2025, significant emigration will continue, as many citizens consider that moving to another country is more advantageous than remaining in their own. In this regard, OIM Ecuador indicates that "1.2 million Ecuadorians intend to migrate abroad [45]." In other words, there are fewer foreigners attracted by the country's advantages and more nationals with a clear intention to move abroad in search of better opportunities. The question arises: why, if dollarization was supposed to correct economic imbalances, does the average Ecuadorian still contemplate emigration?.

Table 1: *Population.*

Country	2000	2023	Variation
Panamá	3,010,369	4,515,577	50%
Ecuador	12,689,206	18,138,478	43%
El Salvador	5,943,366	6,338,193	7%
Venezuela	24,530,000	28,405,543	16%
Original work. Source: World Bank. (b). (2006).			

Table 2: *% Poverty Index.*

Country	2000	2001	2023	Variation
Panamá	29.8		14.3	-52%
Ecuador		53.5	25.3	-53%
El Salvador	49.1		27.9	-43%
Venezuela	44.2		58.9	33%
Original work. Source: CEPAL (2025). UCAB (2025).				

Table 3: *% Migration Rate.*

Country	2000	2025	Variation
Panamá	-0.57	1.4	-346%
Ecuador	-6.38	-0.9	-86%
El Salvador	-11.33	-3.8	-66%
Venezuela	-1.71	-3.5	105%
Original work. Source: Cepal (2025). Datosmacro (2025). IndexMundi (2025).			

Table 4: *Gini Index.*

Country	2000	2001	2006	2023	Variation
Panamá	0.57			0.49	-14%
Ecuador	0.56			0.45	-21%
El Salvador	0.50			0.40	-21%
Venezuela		0.47	0.45		-5%
Original work. Source: Datosmacro (2025).					

Table 5: *Minimum Wage.*

Country	2000	2001	2023	Variation
Panamá	239.2		461.70	93%
Ecuador		118	450.00	281%

El Salvador	125.3		365.00	191%
Venezuela	144		3.50	-98%
Original work. Source: Cepal (2025). Datosmacro (2025).				

Table 6: *% Unemployment.*

Country	1999	2023	Variation
Panamá	14	5.8	-141%
Ecuador	14.4	3.4	-324%
El Salvador	6.9	5.2	-33%
Venezuela	14.9	33.5	56%
Original work. Source: Cepal (2025). Datosmacro (2025). ICEX 2025			

Table 7: *Exports. MM USD.*

Country	**2000**	**2023**	**Variation**
Panamá	859.50	16,738.30	1847%
Ecuador	4,926.60	31,126.50	532%
El Salvador	2,941.00	6,498.10	121%
Venezuela	33,529.00	7,780.00	-77%
Original work. Source: Datosmacro (2025).			

Table 8: *Remittances vs. GDP in MM USD.*

Country	2024	PIB 2024	% Remesas Vs. PIB
Panamá	460	87,688	0.52%
Ecuador	5,943	124,676	4.77%
El Salvador	8,289	35,365	23.44%
Venezuela	3,800	102.702,7*	3.70%
Original work. Source: BID (2025). Datosmacro (2025). Banca y negocios. (enero, 2025). *Estimate.			

Table 9: *GDP. In MM USD.*

Country	**2000**	**2018**	**2024**	**Variation**
Panamá	12,958		87,688	85%
Ecuador	17,531		124,676	86%
El Salvador	11,785		35,365	67%
Venezuela	117,596	102,021		-15%
Original work. Source: Datosmacro (2025).				

Table 10: *GDP. PER/Capita. In USD.*

Country	**2000**	**2018**	**2024**	**Variation**
Panamá	4,261		19,692	78%
Ecuador	1,405		6,738	79%
El Salvador	1,978		5,556	64%
Venezuela	4,821	3,423		-41%
Original work. Source: Datosmacro (2025).				

In the case of El Salvador, the situation is similar to that of Ecuador: the number of immigrants decreases while the number of emigrants increases. This trend persists despite the balanced economic situation in these formally dollarized countries.

Venezuela presents a similar case to the previous two: the number of immigrants decreases and that of emigrants increases, reaching figures close to 8 million people ACNUR [46]. The reasons why in two countries (Ecuador and El Salvador) the trend is directed towards greater emigration of their citizens are not readily apparent, whereas in Venezuela, this is explained by the severe economic, political, and social crisis afflicting the country. The Gini Index is a widely used metric as a parameter of inequality. Table 4 displays these figures for the countries under study. For Panama, Ecuador, and El Salvador, the Gini Index, shown in (Table 4), can provide an answer to such a situation, since, despite the increase in their exports (Table 7), these cash flows do not reach the lowest strata of the population. As a result, there are quite pronounced income inequality indices, which force people to leave the country in search of better-paid jobs. Regarding Venezuela, these results are consistent since the difficult economic situation, materialized in a 331% drop in exports—especially oil exports—shown in Table 7, along with other economic, political, and social imbalances, raises the parameters of income inequality among the population, which acts as an incentive for emigration.

The labor perspective

Labor variables allow for measuring the purchasing power of the population and their ability to acquire basic resources and pay for family expenses. Some of these indicators are presented below.

The increase in the minimum wage, as shown in (Table 5), is a good indicator of economic improvement accessible to the general population. The question, then, is: is a minimum wage sufficient to cover the needs of a working family, or are several "minimum wages" necessary? Inflation and the cost of the basic food basket are appropriate parameters to answer this question, because it is possible to be in a context of low inflation, but with very low purchasing power, which prevents a family from covering its basic needs. In the cases of Panama, Ecuador, and El Salvador, countries that have managed to significantly reduce inflation, some signs do not correspond to a prosperous population. These nations show a balance and control of their macroeconomic variables. However, when delving deeper into these results, both in Ecuador and El Salvador, one finds high rates of emigration, low-quality wages and jobs, high levels of informality, and exports of raw materials and agricultural products, which do not generate sufficient cash flows and foreign currency to maintain and improve the purchasing power of the average citizen. This argument is supported by Chicaiza, Vasconez, Roura, and Veliz & Diaz for the case of Ecuador, while for El Salvador, by Swissinfo, Bouvier & Vane, ECLAC, and Velasquez L. [47-51]. As in the previous examples, the countries that implemented formal dollarization within coherent and coordinated economic measures managed to reduce unemployment, as shown in? (Table 6), while Venezuela, due to its deep crisis, increased it to devastating levels.

The flow of money

Something that was irrefutably demonstrated during the Covid-19 pandemic is that money flows are vital to maintaining a healthy economic dynamic, in such a way as to achieve optimal levels of sustainable prosperity that ensure survival. From a national perspective, these financial flows have a variety of sources. The most appropriate way to maintain a healthy economy is for them to come, to a large extent, from exports and business with foreign countries, and the national taxes derived from them. Another recurring source of funds is the issuance of debt, as well as remittances sent by nationals residing abroad, to name only the most relevant. Table 7 shows exports by country for the years 2000 and 2023, revealing a significant increase in exports in those economies that were formally dollarized, while in Venezuela, exports in general experienced a sharp decline due to the extreme conditions of the local economy (Table 7). An important point to highlight regarding national income is remittances from abroad, sent to family members who remain in their countries of origin. Table 8 displays remittances received by country and their comparison with GDP, both indicators corresponding to the year 2024 (Table 8). Although these funds do indeed alleviate the needs and hardships of residents who have not migrated abroad, they are merely a reflection of the economic, political, and social imbalances that persist in their countries of origin. The higher the percentage of remittances relative to GDP, the more severe and structural the crisis will be, especially if these funds come from precarious jobs that migrants hold, sending money home to their families with great sacrifice. However, in examples such as Panama, where, after many years, the problem of inequality persists—as shown by the Gini Index in Table 4 and highlighted in Berna—a review of the objectives of these public policies is necessary [52].

On the other hand, in the specific case of Ecuador, a deep structural problem is revealed that affects the population in general, but especially those with low income, since the electricity supply—essential for the development of countries—is highly inefficient, according to Moncada P. and Canizales [53,54]. In addition, insecurity exceeds the limits of Latin America, according to Mella [55]. When observing the performance of El Salvador, it was found that the situation is not much different. Although they have managed to reduce inflation to very low levels for 2025, unemployment, a minimum wage that does not cover basic needs, and the increase in the basic food basket are some of the problems that the Salvadoran population must face this year, according to the CDC and Alvarado [56,57]. Regarding the food basket, it increased from $200.20 in 2019 to $256.02 in 2024 La Prensa Grafica [58]. About Venezuela, it has been argued from a technical point of view that the country's economy, as measured by Gross Domestic Product (GDP), has grown in recent quarters. The performance of the Venezuelan economy, in terms of GDP, would show growth of 1.5% for 2022, 1.5% for 2023, and 4.2% for 2024, according to the Fondo Monetario Internacional and Deloitte [59,60]. It is important to emphasize that, from a mathematical calculation standpoint, this is indeed an increase in the value of the variable, but that increase does not translate in any way—and in Venezuela's case, it is evident—into benefits for the average population. From another perspective, it could be said that GDP per capita is a more suitable index to reflect the prosperity (or poverty) of the average citizen, as shown in (Table 9,10). Although national accounts present very flattering GDP/per capita indices, these should be cross-checked with other indicators such as the cost of the food basket and the minimum wage, since there is a bias created by the difference between the average GDP/per capita and the real distribution of benefits to each member of society.

Who dollarizes

At this point, an important question arises: why is it that only small—and very few—countries take the initiative to dollarize their economies? The different existing examples correspond to vulnerable countries, not only economically, with limited resources to ensure the prosperity of their people, but also educationally and socially. Their income depends on exports of raw materials, generally agricultural products and services. These vulnerabilities are heightened by dependence on a foreign currency. Except for the euroization at the beginning of this century in the main European countries, none of the world's leading economies has decided to dollarize, since for them, seigniorage and control over monetary policy are of essential importance [61-64].

Conclusions

Due to the significant imbalance between human needs and the resources available to satisfy them, economies and nations in general are always subject to the swings of cycles of boom and prosperity, followed by depressions and economic crises. Minimizing these imbalances, so that they impact citizens as little as possible, is a very difficult task and should therefore be one of the main responsibilities of governments. However, it is possible to ensure that these swings between prosperity and crisis do not lead to difficult situations that endanger people's lives. The current reality of the countries under study, in light of their decision to dollarize, reveals that it has not been an efficient enough tool to free these people from the scourge of poverty and scarcity. These are vulnerable countries, with unassisted citizens, dependent on precarious economies that drive them to venture into unknown regions abroad, revealing the social cost involved in monetary stability following dollarization. On the side of central banks, there are many examples of countries with strong structural economic imbalances, but there are also others that have been able to minimize the impacts of economic difficulties, thanks to the creation and strengthening of institutions that ensure sustainable production performance, focused on achieving the common good—practically and tangibly, not just as rhetorical discourse.

It can be concluded that dollarization has not been enough to improve the economies of citizens, since it is essential to implement coherent public policies aimed at strengthening not just a specific public policy, but the entire productive system of the country, with solid, credible, and reliable institutions, and to educate the population in areas that foster and stimulate productive work and generate value for markets and society in general. A prosperous country is built with the added value that comes from the efforts of its citizens, who create businesses that produce goods and services useful to the market and society. These businesses generate wealth to strengthen the economy, supported by a solid and reliable institutional system. The construction of a prosperous country is not achieved with a local or foreign currency, nor with the presence or absence of a central bank. On the contrary, it is a robust economy that creates a strong currency, with or without a central bank.

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