

Turkish Economic Review

www.kspjournals.org

Volume 9

December 2022

Issue 4

A survey of Venezuelan public opinion on the replacement of the Bolivar with either the U.S. dollar or the central bank of Venezuela with a currency board

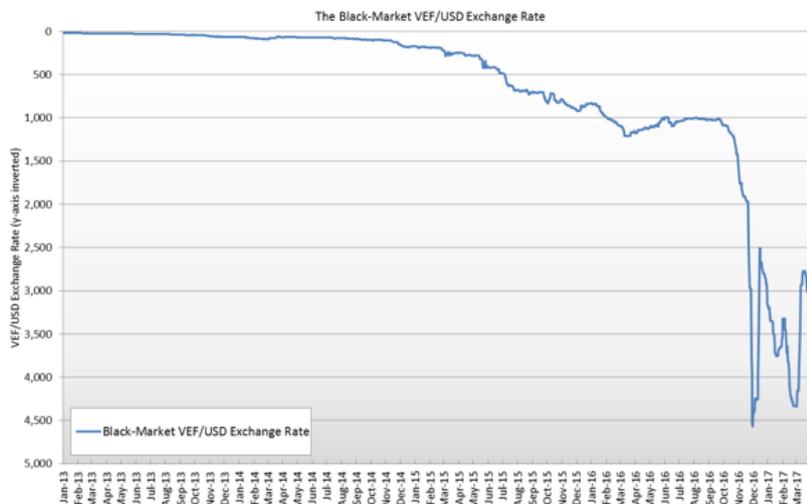
By Steve H. HANKE † María Belén WU

Abstract. This paper describes the methodology and presents the results of a Datincorp survey on Venezuela's economic crisis. The survey was carried out in March 2017. A majority of Venezuelans do not trust the Central Bank of Venezuela, and believe that immediate change is necessary. A majority of Venezuelans also indicate that the implementation of dollarization or an orthodox currency board are not only the most desirable solutions in theory, but are also highly supported by Venezuelan public opinion. **Keywords.** Currency board, dollarization, monetary reform, Venezuela. **JEL.** E50; E42; P21.

1. Introduction

With the arrival of President Hugo Chávez in 1999, Venezuela embraced Chavismo, a form of Andean socialism. In 2013, Chávez met the Grim Reaper, and Nicolás Maduro assumed Chávez's mantle.

The Grim Reaper has also taken its scythe to the Venezuelan bolivar. The death of the bolivar is depicted in the following chart. A bolivar is worthless.



Sources: Banco Central de Venezuela, Dollar.nu, Dolar Paralelo, International Monetary Fund (IFS), Paralelo Venezuela.

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Note: For purposes of illustrating the declining value of the Venezuelan bolivar, relative to the U.S. dollar, the y-axis is inverted.

Figure 1. The fall in the value of the Venezuelan Bolivar

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With the collapse of a currency comes inflation. By the time President Nicolás Maduro arrived, inflation was in triple digits and rising.

As inflation accelerated, the Banco Central de Venezuela (BCV) became an unreliable source of inflation data. Indeed, from December 2014 until January 2016, the BCV did not report inflation statistics. To remedy this problem, the Johns Hopkins-Cato Institute Troubled Currencies Project, which I direct, began to measure inflation in 2013.

The most important price in an economy is the exchange rate between the local currency and the world's reserve currency – the U.S. dollar. As long as there is an active black market (read: free market) for currency and black market data are available, changes in the black market exchange rate can be reliably transformed into accurate estimates of countrywide inflation rates. Using the economic principle of Purchasing Power Parity (PPP), I compute the implied annual inflation rate each day by translating changes in the VEF/USD exchange rate into annual inflation rates. The chart below shows the course of that annual rate, which peaked at 800% (yr/yr) in the summer of 2015. As of April 30, 2016, Venezuela's annual inflation rate is 280%, one of the highest inflation rates in the world (see the chart below).

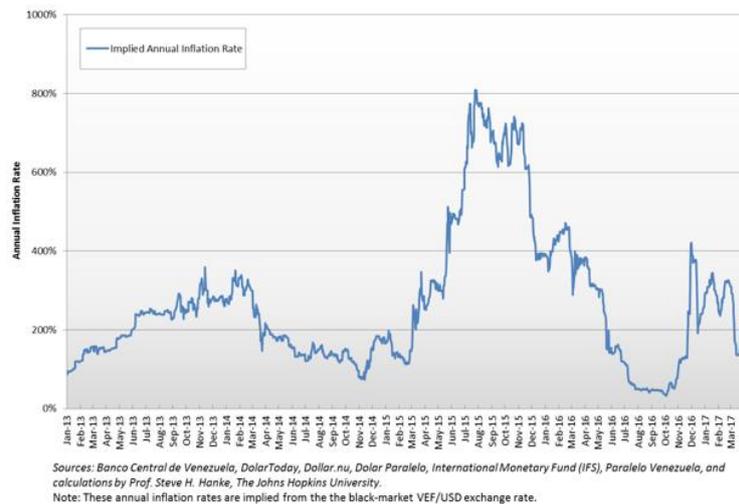


Figure 2. Venezuela's annual inflation rates

Historically, policymakers have attempted to tackle the question of how to stop inflation, especially hyperinflation, with little to no success. Inflation is inherently destabilizing for not only a country's economy, but as Venezuela's case demonstrates, it incites endless social and political unrest. Stability might not be everything, but everything is nothing without stability. So, what steps can be taken to restore economic stability in Venezuela?

3. Dollarization

One sure-fire way to stop Venezuela's death spiral is to dump the bolivar and adopt the greenback. This is called "dollarization." It is a proven elixir. I (Hanke) know because I operated as a State Counselor in Montenegro when it dumped the worthless Yugoslav dinar in 1999 and replaced it with the Deutsche mark. I also watched the successful dollarization of Ecuador in 2001, when I was operating as an adviser to the Minister of Economy and Finance.

Officially dollarized countries produce lower, less variable inflation rates and higher, more stable economic growth rates than comparable countries

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with central banks that issue domestic currencies. Dollarization is, therefore, desirable. The chart below shows the normalized values of real GDP in terms of U.S. dollars between 2001 (index value = 100) and 2016 for nine Latin American countries. Three – Panama, Ecuador, and El Salvador – are officially dollarized, while Peru is semi-officially dollarized (read: both the Peruvian sol and USD are legal tender). In the three officially dollarized countries, real GDP growth has been more stable than and generally superior to growth in the countries that issue their own domestic currencies.

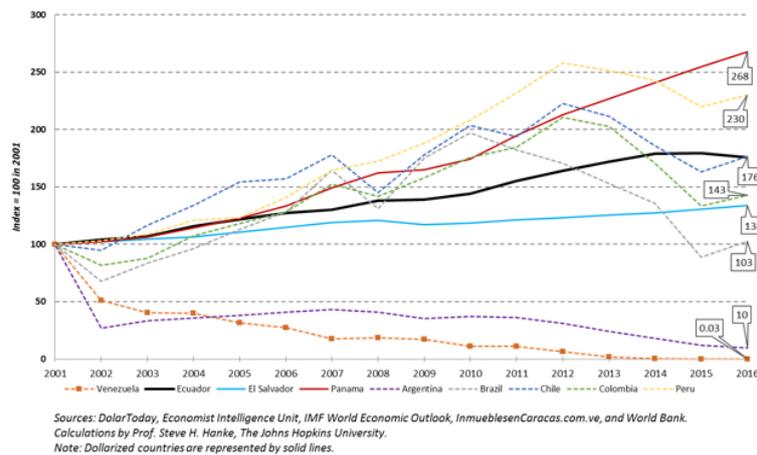


Figure 3. Dollarized vs. undollarized Latin America countries: Real GDP in USD at current prices (2001-2016)

So, not all the news from Venezuela is grim. After all, there is a tried and true way to stabilize the economy, which is a necessary condition required before the massive task of life-giving reforms can begin. Dollarization would stabilize the economy, but it is not the only solution.

4. Currency Board

A second sure-fire method to stop Venezuela's death spiral would be to adopt a currency board system. In such a system, the bolivar would become a clone of a reliable anchor currency, such as the U.S. dollar.

Just what is a currency board? An orthodox currency board issues notes and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange. As reserves, it holds low-risk, interest-bearing bonds denominated in the anchor currency. The reserve levels (both floors and ceilings) are set by law and are equal to 100%, or slightly more, of its monetary liabilities. A currency board generates profits from the difference between the interest it earns on its reserve assets and the expense of maintaining its liabilities.

A currency board's operations are passive and automatic. The sole function of a currency board is to exchange the domestic currency it issues for an anchor currency at a fixed rate. In consequence, the quantity of domestic currency in circulation is determined solely by market forces, namely the demand for domestic currency.

A currency board cannot issue credit. It cannot act as a lender of last resort or extend credit to the banking system. It also cannot make loans to the fiscal authorities and state-owned enterprises. In consequence, a currency board imposes a hard budget constraint and discipline on the economy.

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A currency board requires no preconditions for monetary reform and can be installed rapidly. Government finances, state-owned enterprises, and trade need not be already reformed for a currency board to begin to issue currency.

Countries that have employed currency boards have maintained currency convertibility and delivered lower inflation rates, smaller fiscal deficits, lower debt levels relative to GDP, fewer banking crises, and higher real growth rates than comparable countries that have employed central banks.

It is important to mention that, because of Argentina, the currency board idea became engulfed in controversy. What Argentina termed “Convertibility” was introduced in April 1991 to stop inflation, which it did. The system had certain features of a currency board: a fixed exchange rate, full convertibility, and a minimum reserve cover for the peso of 100% of its anchor currency, the U.S. dollar. However, it had two major features which disqualified it from being an orthodox currency board. It had no ceiling on the amount of foreign assets held at the central bank relative to the central bank’s monetary liabilities. So, the central bank could engage in sterilization and neutralization activities, which it did. In addition, it could hold and alter the level of domestic assets on its balance sheet. So, Argentina’s monetary authority could engage in discretionary monetary policy, and it did so aggressively.

Because of these flaws, I penned an article which appeared in the October 25, 1991 edition of the *Wall Street Journal*. I concluded that, unless Argentina embraced orthodoxy and amended the Convertibility Law, the system would eventually collapse, which it did in 2002.

The collapse of Convertibility spawned a cottage industry of currency board critiques. But, since Argentina’s Convertibility System allowed for both monetary and exchange rate policies, it was not a currency board – something most economists fail to recognize. Indeed, a scholarly survey of almost 100 leading economists who commented on the Convertibility System found that almost 97% incorrectly identified it as a currency board system. So, those that used the collapse of Argentina’s Convertibility System to argue against currency boards literally didn’t know what they were talking about.

5. On the Importance of Public Opinion

Many great thinkers have realized the importance of public opinion. For example, Voltaire won his famous Calas case by winning over the “court of public opinion.” And it was Voltaire who concluded that the Crusades and the use of Islam (read: religious prejudice and intolerance) were the result of the changing winds of public opinion.

Ludwig von Mises, in his treatise, *Human Action*, had this to say about public opinion:

But it is different in the field of social organization and economic policies. Here the best theories are useless if not supported by a majority of the people. They cannot work if not accepted by a majority of the people. Whatever the system of government may be, there cannot be any question of ruling a nation lastingly on the ground of doctrines at variance with public opinion. In the end the philosophy of the majority prevails. In the long run there cannot be any such thing as an unpopular system of government. The difference between democracy and despotism does not affect the final outcome. It refers only to the method by which the adjustment of the system of government to the ideology held by public opinion is brought about. Unpopular autocrats can

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only be dethroned by revolutionary upheavals, while unpopular democratic rulers are peacefully ousted in the next election.

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history.

The customary discussions concerning the role the individual plays in history miss the point. Everything that is thought, done and accomplished is a performance of individuals. New ideas and innovations are always an achievement of uncommon men. But these great men cannot succeed in adjusting social conditions to their plans if they do not convince public opinion (pp.863-864).

Thus, we turn to Datincorp's new survey to understand public opinion in Venezuela under the Socialist 'stewardship' of Maduro.

6. The Survey

a. *Objective and Methodology*

The general objective of the Datincorp Survey was to obtain a reliable diagnosis of Currency and Country Expectations of the Bolivarian Republic of Venezuela, disaggregated by demographic indicators.

The methodology of the study comprised the following stages:

1. Preparatory Stage: Decisions were made regarding the construct that was measured, its definition and form of measurement, as well as the development and revision of the constructed reagents.

2. Design Stage: At this stage the sample and the field work were designed. The instrument was validated before its application with a pilot sample in the field.

3. Fieldwork Stage: At this stage the instrument was used within the conditions in which it was constructed. The instrument was applied to pre-selected interviewees directly in their homes, according to procedures established in the methodology.

4. Results Analysis Stage: Once the field data was collected, it was reviewed and transcribed into the database, yielding the results. Statistical analysis was then generated.

5. Logical Analysis Stage: This is the final phase of the study. Logical analysis is the logical and flat interpretation of the results of the research.

The study's universe consisted of all the electors of the Bolivarian Republic of Venezuela, older than 18 years of age, living in Venezuela. The geographic coverage of the study comprised the major urban domains and some smaller urban domains of the mentioned political-administrative areas.

Study Sample Design:

1. The sample was designed under the four-stage probabilistic method (starting with the selection of urban areas, then the selection of blocks and streets, the selection of the dwellings, and finally the selection of the interviewees), taking into account the disaggregation proposed in the coverage.

2. Sample size: The overall "n" and final size of the sample was 1,200 voters interviewed, with a maximum expected sample error of (+/-) 2.8%, and with a confidence level of 95%.

3. Sample framework: The sample frame of the study is formed by the number of voters that exists in the geographic area under study.

Field Strategy:

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- The persons preselected strictly in their homes were interviewed, classifying them by Type of Housing, Age and Sex.

- Supervision was 100% in the field.

Results Analysis:

- Revision: All of the fieldwork was carefully supervised, and each one of the questionnaires meticulously revised, to guarantee the quality of the data.

- Processing: The answers of the interviewees were transcribed to a database that was processed by an electronic statistical package, which permitted the analysis of the voters' opinions.

- Statistical Analysis: Once all the data was transcribed, results were statistically analyzed according to the total number of voters in Venezuela and the information was disaggregated by demographics, crosses of variables by political party, and any other variable required by the client and their advisors.

b. Results of the Survey

The original Spanish survey questions as well as their English translation are included in the Appendix.

The following charts describe the major findings of the survey. These are broken down by political view (Chavista or opposition). The first two charts represent the respondents' views on the potential dollarization or installation of a currency board in Venezuela.

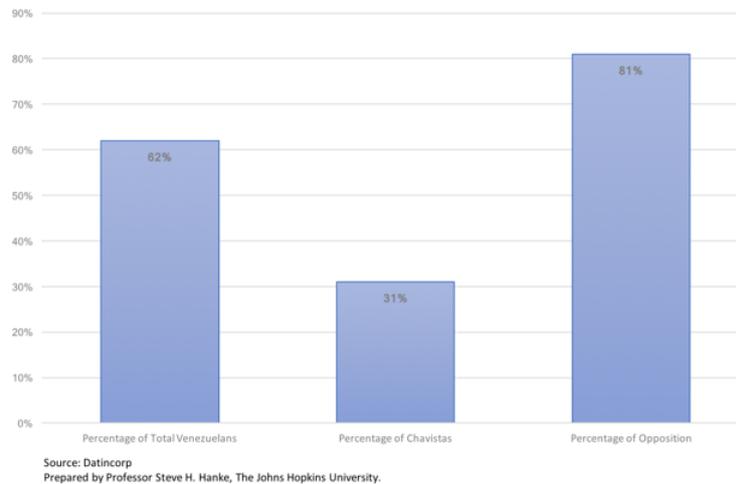


Figure 4. *Those favoring dollarizations*

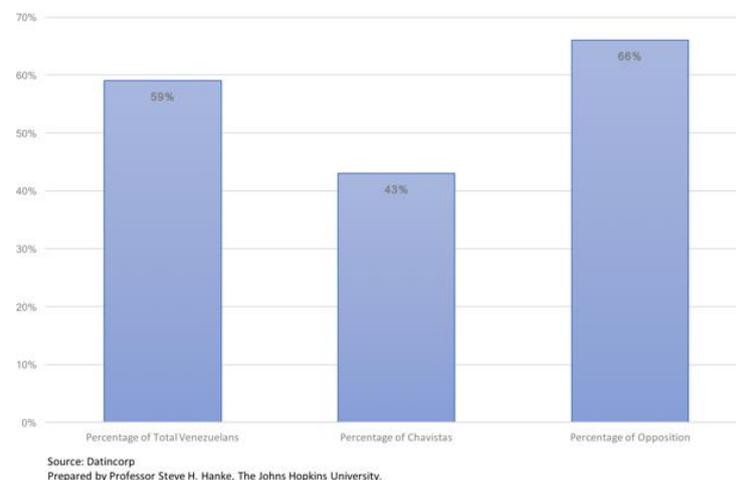


Figure 5. *Those favoring a currency board*

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As shown in the charts above, the study revealed that 62% of Venezuelans are in favor of a dollarized economy. From the total number of respondents, 31% of Chavistas and 81% of the opposition are in favor. Similarly, 59% of Venezuelans are in favor of installing an orthodox currency board in Venezuela. From the total number of respondents, 43% of Chavistas and 66% of the opposition are in favor.

Additionally, the survey also revealed that out of the mere 21% who believe the Central Bank of Venezuela is helping the Venezuelan economy, only 50% of Chavistas and 8% of the opposition believe that the Central Bank of Venezuela is doing a good job at maintaining the purchasing power of the bolivar.

The charts below show the percentage of Venezuelans that believe inflation in 2017 will be higher than in past years, as well as Venezuelans' opinions on whether the general social, economic, and political climate will worsen or improve in the next months to years in Venezuela.

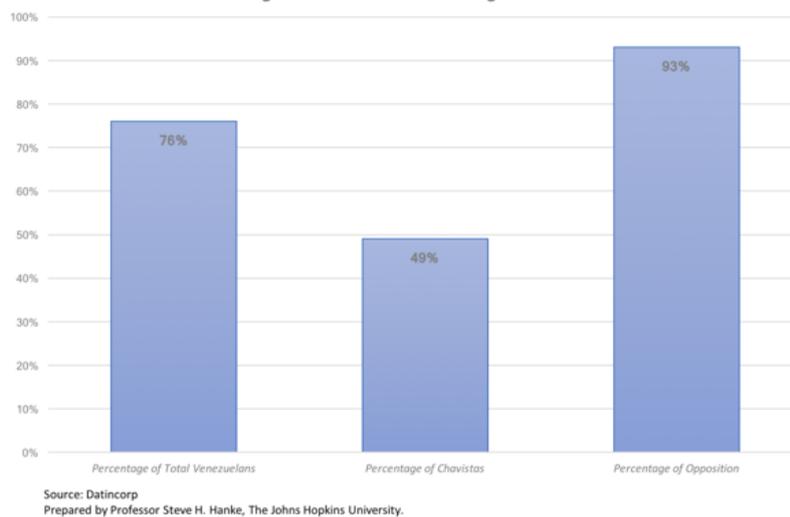


Figure 6. Those believing inflation in 2017 will be higher than in past years

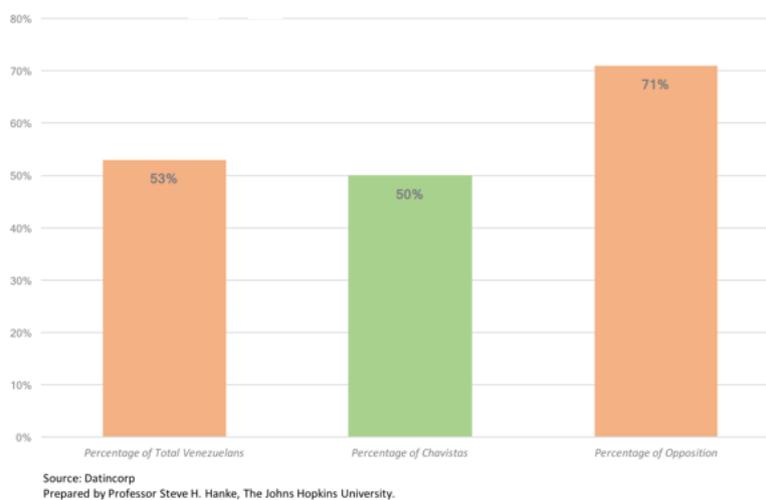


Figure 7. Those who believe that the general social, economic, and political climate will worsen (orange) or improve (green) in the next months to years in Venezuela

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The answers to the survey are striking. While the Chavistas distrust the Central Bank, they are unwilling to put the bolivar to death. In consequence, they favor the replacement of the Central Bank with a currency board system, rather than dollarization (43% vs. 31%). At the same time, the study found that 67% of Chavistas claim they would like to continue using bolivars for their daily transactions in the near future. In fact, 49% of Chavistas think that the bolivar should have the same value as the dollar – and yet they reject dollarization.

Furthermore, it is noteworthy that a significant portion of interviewees answered “don’t know/don’t have an opinion” in the question regarding potential dollarization or a currency board. Hence, it is relevant and necessary to educate the Venezuelan public on these two alternative monetary systems and their benefits. For this purpose, we have created a table, which is attached as a concluding Annex. It summarizes the benefits of dollarization in orthodox currency boards.

Lastly, the study found that 65% of Venezuelans do not convert prices from bolivars to dollars when buying goods. This was an unexpected result, as we would have expected the answer to be majority “yes”, due to the predominance of the black market as a gateway to obtain scarce goods.

7. Conclusion

The big takeaways from the Datincorp survey are: 79% of Venezuelans do not trust the Central Bank of Venezuela, 62% favor abandoning the bolivar and replacing it with the U.S. dollar, and 59% support doing away with the Central Bank, replacing it with a currency board. Public opinion firmly supports a major change in Venezuela’s currency regime.

Appendix

I. Survey Questions – English Version

VARIABLE: THE CURRENCY BOARD OR DOLLARIZATION OF THE VENEZUELAN ECONOMY

- 1. In what currency would you prefer to receive your income?**
 - a. Bolivars
 - b. Dollars
 - c. Another currency
 - d. Don't know/Don't have an opinion
- 2. Currently, what currency do you use most frequently for daily transactions?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 3. Currently, in what currency do you hold savings, if applicable?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 4. One year ago, what currency did you use most frequently for daily transactions?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 5. One year ago, in what currency did you hold savings, if applicable?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 6. In the near future, what currency do you expect to use most frequently for daily transactions?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 7. In the near future, in what currency do you expect to hold savings, if applicable?**
 - a. Bolivars
 - b. Dollars
 - c. Other
- 8. If you had the economic and financial ability to save, what would you choose to do?**
 - a. You would spend all your money on anything
 - b. You would buy real estate
 - c. You would buy a car
 - d. You would save in bolivars
 - e. You would buy dollars
 - f. You would buy gold
 - g. Other option. Which one? _____
 - h. Don't know/Don't have an opinion
- 9. Would you support a government decision to discontinue bolivars and introduce new banknotes guaranteed to have the same value as the dollar?**
 - a. Yes
 - b. No
 - c. Don't know/Don't have an opinion
- 10. Would you support a government decision in which they turn the dollar into Venezuela's national currency?**
 - a. Yes
 - b. No
 - c. Don't know/Don't have an opinion
- 11. Do you trust the Central Bank of Venezuela to maintain the purchasing power of bolivars?**
 - a. Yes
 - b. No
 - c. Don't know/Don't have an opinion
- 12. Today, when you are buying things, do you tend to convert from the price in bolivars to dollars when it concerns:**
 - a. Yes, for common purchases such as day-to-day shopping

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- b. Yes, for exceptional purchases such as the purchase of a car or a house
 - c. No, not at all
 - d. It depends (spontaneous)
 - e. You don't remember the value of the previous currency (spontaneous)
 - f. Don't know
13. **What is your expectation regarding the inflation rate this year? Compared to last year, will it be:**
- a. Higher
 - b. Lower
 - c. The same
 - d. Don't know

II. Survey Questions – Spanish Version

VARIABLE: LA CAJA DE CONVERSIÓN O LA DOLARIZACIÓN DE LA ECONOMÍA VENEZOLANA

1. **¿En qué moneda prefiere recibir sus ingresos? ¿En bolívares o en dólares?**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda (No mencionar)
 - d. No sabe / No opina (No mencionar)
2. **Hoy en día, qué moneda utiliza usted más frecuentemente para realizar transacciones diarias?**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda
3. **Hoy en día, en qué moneda conserva sus ahorros? (Si es aplicable)**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda (No mencionar)
 - d. No sabe / No opina (No mencionar)
4. **Hace un año, qué moneda solía utilizar usted más frecuentemente para realizar transacciones diarias?**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda
5. **Hace un año, en qué moneda solía conservar sus ahorros? (Si es aplicable)**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda
6. **En el futuro cercano, qué moneda espera utilizar usted más frecuentemente para realizar transacciones diarias?**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda
7. **En el futuro cercano, en qué moneda espera conservar sus ahorros? (Si es aplicable)**
 - a. Bolívares
 - b. Dólares
 - c. Otra moneda
8. **En caso que usted tuviese posibilidades económicas y financieras para ahorrar ¿qué escogería hacer?**
 1. Se gastaría todo el dinero en lo que sea
 2. Compraría propiedades inmobiliarias
 3. Compraría un carro
 4. Lo ahorraría en bolívares
 5. Compraría dólares
 6. Compraría oro
 7. Otra opción ¿Cuál? _____
 8. No sabe / No opina (No mencionar)
9. **¿Apoyaría una decisión del gobierno que reemplace el bolívar por una nueva moneda que tenga garantizado el mismo valor que el dólar?**

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1. Sí
 2. No
 3. No sabe / No opina (No mencionar)
- 10. ¿Apoyaría una decisión del gobierno que convierta al dólar en la moneda nacional de Venezuela?**
1. Sí
 2. No
 3. No sabe / No opina (No mencionar)
- 11. ¿Confía usted en el Banco Central de Venezuela para mantener el poder de adquisición del bolívar?**
1. Sí
 2. No
 3. No sabe / No opina (No mencionar)
- 12. ¿Hoy en día, cuando usted va de compras, tiende a convertir el precio en bolívares al precio en dólares cuando se trata de...?**
- a. Sí, para compras comunes como ir al supermercado
 - b. Sí, para compras excepcionales como la compra de un automóvil o una casa
 - c. No, en ninguna circunstancia
 - d. Depende
 - e. Usted no conoce el valor en dólares
 - f. No sabe
- 13. ¿Cuál es su expectativa para a la tasa de inflación del 2017? Comparado al año pasado, usted espera que sea...**
- a. Más alta
 - b. Más baja
 - c. La misma tasa obtenida en 2016
 - d. No sabe



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