

106TH CONGRESS  
1ST SESSION

# S. 1879

To promote international monetary stability and to share seigniorage with  
officially dollarized countries.

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IN THE SENATE OF THE UNITED STATES

NOVEMBER 8, 1999

Mr. MACK introduced the following bill; which was read twice and referred to  
the Committee on Banking, Housing, and Urban Affairs

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## A BILL

To promote international monetary stability and to share  
seigniorage with officially dollarized countries.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “International Monetary  
5 Stability Act of 1999”.

6 **SEC. 2. FINDINGS; STATEMENT OF POLICY.**

7 (a) FINDINGS.—Congress finds that—

8 (1) monetary stability is a prerequisite for  
9 strong long-term economic growth and increasing  
10 standards of living;

1           (2) many emerging market countries lack mone-  
2           tary stability and have therefore suffered economic  
3           and financial problems that suppress economic  
4           growth and living standards, including financial fra-  
5           gility, inflation expectations that are built into labor  
6           markets, and high and volatile inflation rates and in-  
7           terest rates;

8           (3) many emerging market countries have used  
9           pegged exchange rate systems to try to foster mone-  
10          tary stability and have experienced temporary peri-  
11          ods of higher economic growth and lower inflation  
12          followed by drastic balance of payments problems,  
13          steep devaluations, and major losses in international  
14          reserves;

15          (4) emerging market countries that have adopt-  
16          ed currency board systems have enjoyed higher rates  
17          of economic growth and lower interest rates, al-  
18          though interest rates have remained higher for loans  
19          denominated in the local currency than in the an-  
20          chor currency;

21          (5) since the financial and economic crisis that  
22          struck Asia in 1997, there has been growing inter-  
23          national interest in official dollarization, whereby a  
24          country would substantially or totally eliminate its

1 domestic currency and adopt the United States dol-  
2 lar as legal tender;

3 (6) official dollarization would let a country im-  
4 port monetary stability, thereby bringing inflation  
5 and interest rates down toward the levels of the  
6 United States;

7 (7) official dollarization would make it impos-  
8 sible for governments to print domestic currency to  
9 pay for government programs, thereby promoting  
10 fiscal discipline;

11 (8) official dollarization would make it easier  
12 for people to conduct financial transactions in the  
13 currency they use for daily commerce, thereby pro-  
14 moting deeper financial markets;

15 (9) lower inflation, interest rates, and inflation  
16 and interest-rate volatility, greater fiscal discipline,  
17 and deeper financial markets would increase long-  
18 term economic growth and raise living standards in  
19 emerging market countries;

20 (10) by increasing trade and investment flows  
21 and decreasing the need for foreign assistance,  
22 greater economic growth and higher living standards  
23 abroad would serve the interests of the United  
24 States;

1           (11) countries that become officially dollarized  
2 would lose seigniorage (the profit from issuing a cur-  
3 rency) and this is a significant barrier to official  
4 dollarization;

5           (12) official dollarization would increase the sei-  
6 gniorage earnings of the United States;

7           (13) it would be mutually beneficial for the  
8 United States to encourage official dollarization by  
9 offering to share with countries that become offi-  
10 cially dollarized a portion of the extra seigniorage  
11 earnings that the United States would earn; and

12           (14) encouraging official dollarization com-  
13 plements ongoing efforts by the United States to  
14 strengthen the international financial architecture.

15       (b) STATEMENT OF POLICY.—It is the policy of the  
16 United States that—

17           (1) the Federal Reserve System has no obliga-  
18 tion to act as a lender of last resort to the financial  
19 systems of dollarized countries;

20           (2) the Federal Reserve System has no obliga-  
21 tion to consider the economic conditions of dollarized  
22 countries when formulating or implementing mone-  
23 tary policy; and

1           (3) the supervision of financial institutions in  
2           dollarized countries remains the responsibility of  
3           those countries.

4 **SEC. 3. CERTIFICATION.**

5           (a) IN GENERAL.—The Secretary of the Treasury (in  
6 this Act referred to as the “Secretary”) may certify a  
7 country as officially dollarized, after consideration of  
8 whether the country has—

9           (1) ceased issuing a local paper currency;

10           (2) destroyed the materials (such as plates and  
11 dies) used to produce such currency;

12           (3) extinguished a substantial portion of the  
13 local currency in circulation, with plans to extinguish  
14 as much of it as feasible;

15           (4) ended the legal tender status of the local  
16 currency;

17           (5) granted legal tender status to the United  
18 States dollar;

19           (6) ceased accepting local currency, except in  
20 exchange for dollars;

21           (7) ceased making government payments in the  
22 local currency;

23           (8) substantially redenominated its prices, as-  
24 sets, and liabilities in dollars;

1           (9) either opened its banking system to foreign  
2 competition or met international banking standards  
3 (such as those described in the Core Principles for  
4 Effective Banking Supervision issued by the Basle  
5 Committee on Banking Supervision of the Bank for  
6 International Settlements); and

7           (10) engaged in advance consultations with the  
8 Secretary to determine whether the country is a  
9 good candidate for official dollarization.

10       (b) STATEMENT BY SECRETARY.—The Secretary  
11 shall issue a written statement upon certification of a  
12 country under this section that explains why that country  
13 has been certified. The Secretary may not certify United  
14 States territories or commonwealths as officially  
15 dollarized.

16 **SEC. 4. CONSOL.**

17       (a) ISSUANCE.—

18           (1) FACE VALUE.—Upon certification of a  
19 country under section 3, the Secretary shall issue to  
20 the dollarized country a consol. Except as provided  
21 in section 5, the face value of the consol shall be  
22 equal to the amount of dollars exchanged for United  
23 States Treasury securities by the Federal Reserve  
24 System with the dollarized country for purposes of  
25 official dollarization under this Act.

1           (2) LIMITATION.—Face value may not exceed  
 2           the dollar value of the local currency in circulation  
 3           in the dollarizing country prior to the certification of  
 4           that country as officially dollarized under section 3.

5           (b) INTEREST PAYMENTS.—

6           (1) IN GENERAL.—Starting with the first busi-  
 7           ness day of the fourth full calendar month following  
 8           the date of certification of a country under section  
 9           3, the owner of the consol will receive interest pay-  
 10          ments every 3 calendar months equal to  
 11           $(FV_0)(i)(.25)[(C_2-FV_2)/(C_1-FV_1)](85\%)$ .

12          (2) DEFINITIONS.—In this Act—

13           (A)  $FV_0$  = face value of the consol issued  
 14           under this Act to the country receiving the pay-  
 15           ment;

16           (B)  $FV_1$  = face value of all consols issued  
 17           under this Act by the end of the most recent  
 18           full calendar year prior to the date of certifi-  
 19           cation under section 3 of the country receiving  
 20           the payment;

21           (C)  $FV_2$  = face value of all consols issued  
 22           under this Act by the end of the most recent  
 23           full calendar year prior to the payment;

24           (D)  $i$  = average yield to maturity on 90-  
 25           day Treasury bills in the most recent full 3-

1 month calendar period prior to the date of pay-  
 2 ment (using the average of monthly interest  
 3 rates, as calculated by the Board of Governors  
 4 of the Federal Reserve System);

5 (E)  $C_2$  = total global dollar currency in  
 6 circulation at the end of the most recent full  
 7 calendar year prior to the payment (as provided  
 8 by the Board of Governors of the Federal Re-  
 9 serve System); and

10 (F)  $C_1$  = total global dollar currency in  
 11 circulation at the end of the most recent full  
 12 calendar year prior to the date of certification  
 13 of the country receiving the payment (as pro-  
 14 vided by the Board of Governors of the Federal  
 15 Reserve System).

16 **SEC. 5. PREVIOUSLY DOLLARIZED COUNTRIES.**

17 (a) IN GENERAL.—

18 (1) LIMITATION.—The Republic of the Marshall  
 19 Islands, the Federated States of Micronesia, the Re-  
 20 public of Palau, Panama, the Turks and Caicos Is-  
 21 lands and the British Virgin Islands may not be cer-  
 22 tified as officially dollarized or issued consols until  
 23 10 percent of the face value of consols issued to  
 24 countries other than those listed in this paragraph  
 25 equals or exceeds the total combined face value of



1 consols that would be issued to the countries listed  
2 in this paragraph upon their being certified.

3 (2) CONSOL CALCULATION.—

4 (A) IN GENERAL.—Upon certification  
5 under section 3, each of the countries listed in  
6 paragraph (1) shall receive a consol with a face  
7 value equal to  $(4\%)(Y)$ .

8 (B) DEFINITION.—For purpose of sub-  
9 paragraph (A),  $Y$  = nominal dollar gross do-  
10 mestic product, as calculated by the World  
11 Bank (or other recognized statistical authority),  
12 as of September 30, 1999, for calendar year  
13 1997.

14 (3) PAYMENTS.—Interest payments on consols  
15 to countries listed in paragraph (1) shall be made in  
16 accordance with section 4.

17 **SEC. 6. RIGHTS AND OBLIGATIONS.**

18 Owners of consols issued under this Act shall have  
19 the same rights and obligations as other owners of pri-  
20 vately held obligations of the United States Treasury, ex-  
21 cept that a consol originally issued to a country is ren-  
22 dered null and void upon a United States declaration of  
23 war on the country or a publicly issued statement by the  
24 Secretary that the country is no longer officially dollarized  
25 in accordance with this Act, but only if such written state-

1 ment lists the reasons for such a finding. In making a  
2 determination under this section, the Secretary shall con-  
3 sider those factors listed in section 3(a).

4 **SEC. 7. REPURCHASE.**

5 The Secretary may repurchase a consol issued under  
6 this Act at market value, but not sooner than 10 years  
7 after the date of issuance. Purchases may only be made  
8 upon the joint agreement of the Secretary and the owner  
9 of a consol. Consols issued under this Act are not callable.

10 **SEC. 8. EXCHANGE STABILIZATION FUND.**

11 Payments on consols issued under this Act to coun-  
12 tries that are in default or arrears on loans from the Ex-  
13 change Stabilization Fund shall be used to cover such  
14 debts.

15 **SEC. 9. REGULATIONS.**

16 The Secretary and the Board of Governors of the  
17 Federal Reserve System may issue regulations appropriate  
18 to carry out this Act.

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