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2D SESSION

# H. R. 4818

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

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IN THE HOUSE OF REPRESENTATIVES

JULY 10, 2000

Mr. RYAN of Wisconsin introduced the following bill; which was referred to  
the Committee on Banking and Financial Services

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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 2000”.

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 domestic currency than in the  
20          anchor 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;

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

4           (4) in the absence of certification by the Sec-  
5           retary of the Treasury under section 3, countries are  
6           free to dollarize unilaterally.

7 **SEC. 3. CERTIFICATION.**

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

12                 (1) ceased issuing a domestic paper currency;

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

15                 (3) extinguished a substantial portion of the do-  
16                 mestic currency in circulation, with plans to extin-  
17                 guish as much of it as feasible;

18                 (4) ended the legal tender status of the domes-  
19                 tic currency;

20                 (5) granted legal tender status to the United  
21                 States dollar;

22                 (6) ceased accepting domestic currency, except  
23                 in exchange for dollars;

24                 (7) ceased making government payments in the  
25                 domestic currency;

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

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

9           (10) engaged in advance consultations with the  
10          Secretary to determine whether the country is a  
11          good candidate for official dollarization; and

12          (11) cooperated with the United States regard-  
13          ing the prevention of money laundering and counter-  
14          feiting.

15          (b) OTHER CONSIDERATIONS.—In deciding whether  
16          to certify a country as officially dollarized under this sec-  
17          tion, the Secretary may consider any additional factors  
18          that the Secretary deems relevant.

19          (c) DECISION BY SECRETARY.—The absence of any  
20          1 or more of the considerations described in subsection  
21          (a) or (b) does not preclude the Secretary from certifying  
22          a country as officially dollarized.

23          (d) STATEMENT BY SECRETARY.—The Secretary  
24          shall issue a written statement upon certification of a  
25          country under this section that explains why that country

1 has been certified. The Secretary may not certify United  
2 States territories or commonwealths as officially  
3 dollarized.

4 **SEC. 4. PAYMENTS.**

5 (a) IN GENERAL.—Starting with the first business  
6 day of the fourth full calendar month following the date  
7 of certification of a country under section 3, the Secretary  
8 shall, every 3 calendar months, pay a country certified  
9 under section 3 an amount equal to the following:  
10  $(C)(i)(25\%)(P2/P1)(85\%)$ .

11 (b) DEFINITIONS.—In this Act the following defini-  
12 tions shall apply:

13 (1) “C” = the lesser of—

14 (A) the dollar amount of Federal Reserve  
15 Notes that the country receiving the payment  
16 acquired from the Federal Reserve System for  
17 purposes of official dollarization under this Act;  
18 or

19 (B) the dollar value of the domestic cur-  
20 rency in circulation in the country receiving the  
21 payment prior to the certification of that coun-  
22 try under section 3.

23 (2) “i” = average yield to maturity on 90-day  
24 Treasury bills in the most recent full 3-month cal-  
25 endar period occurring before the date of payment

1 under subsection (a), except that if 90-day Treasury  
2 bills are discontinued, the Secretary may substitute  
3 an appropriate alternative interest rate.

4 (3) “P2” = the nonseasonally adjusted United  
5 States City Average All Items Consumer Price Index  
6 for All Urban Consumers (referred to as “CPI-U”)  
7 for the most recent month occurring before the date  
8 of payment under subsection (a) for which data are  
9 available, except that if this price measure is discon-  
10 tinued or, in the judgment of the Secretary, altered  
11 in a manner that is materially adverse to the inter-  
12 ests of the United States, the Secretary may, after  
13 consultation with the Bureau of Labor Statistics,  
14 substitute an appropriate alternative index.

15 (4) “P1” = the nonseasonally adjusted United  
16 States City Average All Items Consumer Price Index  
17 for All Urban Consumers (CPI-U) for the month oc-  
18 ccurring before the date of certification under section  
19 3, except that if this price measure is discontinued  
20 or, in the judgment of the Secretary, altered in a  
21 manner that is materially adverse to the interests of  
22 the United States, the Secretary may, after con-  
23 sultation with the Bureau of Labor Statistics, sub-  
24 stitute an appropriate alternative index.

1 (c) FAITH OF THE UNITED STATES GOVERNMENT.—  
2 Except as otherwise provided in this Act, the faith of the  
3 United States Government is pledged to pay, in legal ten-  
4 der, any payments due under this Act.

5 (d) SOURCE OF FUNDS.—The Secretary may make  
6 payments under this Act out of revenue from deposits of  
7 earnings by Federal Reserve Banks.

8 (e) REDUCTIONS IN PAYMENTS.—If, in the judgment  
9 of the Secretary, the amount of dollars in circulation in  
10 a certified country is such that payments under this Act  
11 would impose a net loss of revenue on the United States  
12 Government, the Secretary may reduce the payment, but  
13 only after the Secretary has issued a written public state-  
14 ment explaining the reasons for doing so.

15 **SEC. 5. PREVIOUSLY DOLLARIZED COUNTRIES.**

16 (a) IN GENERAL.—

17 (1) LIMITATION.—The Republic of the Marshall  
18 Islands, the Federated States of Micronesia, the Re-  
19 public of Palau, Panama, East Timor, the Turks  
20 and Caicos Islands, and the British Virgin Islands  
21 may not be certified as officially dollarized or issued  
22 payments under this Act until 10 percent of the  
23 combined quarterly payments made to countries  
24 other than those listed in this paragraph equals or  
25 exceeds the total combined quarterly payments that

1 would be made to the countries listed in this para-  
2 graph upon their being certified.

3 (2) PAYMENT CALCULATION.—Upon certifi-  
4 cation under section 3, each of the countries listed  
5 in paragraph (1) shall receive payments in accord-  
6 ance with section 4, except that for purposes of the  
7 countries listed in paragraph (1), “C” = (4%)(Y),  
8 where “Y” = nominal dollar gross domestic product  
9 for the country receiving the payment, as calculated  
10 by the World Bank (or other recognized statistical  
11 authority), as of September 30, 1999, for calendar  
12 year 1997.

13 **SEC. 6. PAYMENT CANCELLATION.**

14 (a) IN GENERAL.—The United States shall cease  
15 making payments to a country under this Act if the  
16 United States declares war on the country, or if the Sec-  
17 retary issues a written public statement that the country  
18 is no longer officially dollarized in accordance with this  
19 Act, which statement shall list the reasons for such a find-  
20 ing.

21 (b) CONSIDERATIONS.—In making a determination  
22 under this section, the Secretary shall consider those fac-  
23 tors listed in section 3(a) and any additional factors that  
24 the Secretary deems relevant.

1 **SEC. 7. REGULATIONS.**

2       The Secretary and the Board of Governors of the  
3 Federal Reserve System may issue regulations appropriate  
4 to carry out this Act.

5 **SEC. 8. EXPENSES.**

6       Amounts to pay necessary expenses to make pay-  
7 ments under this Act are appropriated to the Secretary  
8 of the Treasury.

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