US Dollar the De Facto Currency in South American Shadow Economies

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EspañolThe use of the US dollar in Argentina and Venezuela has increased, as both country's currencies rapidly depreciate. Argentineans and Venezuelans rely on a more stable currency to maintain the purchasing power of their money, despite the currency controls in place in both countries.

In Caracas, Venezuela, Andrés* sold a motorcycle in June of this year. Many Venezuelans choose motorcycles as a preferred mode of transportation to better navigate heavy traffic, and because cars are currently scarce and expensive.

At the end of 2013, Andrés purchased the motorcycle in bolívars for the equivalent of US$500. However, he sold the vehicle for US$1,400 via a wire transfer to a foreign bank account. The difference in price is a result of Venezuelan price controls, which are determined by the government in relation to the official value of the dollar.

Although the transaction was illegal, Andrés did not feel he committed any crime because the motorcycle is actually valued at around $1,800 in neighboring countries: "I sold it at market price, taking into account the currency depreciation. The only thing is, the transaction was made in unregulated currency — black-market dollars."

But the notarized document that registered the sale said the transaction took place in bolívars for the equivalent of US$280. Andrés reached an agreement on a price the notary would approve, or in other words, the value that the government assigns to used cars. However, this value was never used, and the buyer simply made an international transfer to Andrés's foreign account for the price that they agreed on.

Price controls have made cars an increasingly scarce commodity in Venezuela. (@NoticiasVenezue)

Venezuelan consumers make this type of transaction because price-controlled products are simply too hard to find. Purchasing a new car at a dealer can take up to two years. In many cases, car dealers ask for large sums of money to complete an expedited sale, which can double the original regulated price of the vehicle.

Carolina's story is very similar to Andrés's experience. She sold her 2007 model vehicle for $8,500 without receiving a single bolívar. The buyer gave her $1,500 in cash and delivered the remaining amount via an international transfer.

They told the notary the sale was made in bolívars for nearly $3,500. Like Andres, this was the price of the vehicle according to government regulations. "The buyer was very happy with my car. He even offered to make the entire payment in dollars. I needed dollars, because I was going to Venezuela and I wanted reliable money. The value of bolívars can fluctuate greatly from one day to the next."

> *Many people in Venezuela hold a formal job, but also participate in the informal economy because they anticipate inflation and the devaluation of the currency.*

Luis, a motorcycle dealer, says it is common for transactions to be made in dollars. Given the low value of the bolívar, the salary that he earns doesn't go very far, despite having been in his current position for more than five years.

To supplement his salary he resells scarce items, such as motorcycles, auto parts, and engine oil. "I'm always looking for an extra source of income, because I can't live off my salary alone."

In the 1980s, recent university graduates earned around $1,000 a month, but their salaries have now dropped to roughly $80 per month. This is why people like Luis maintain a formal job, but also participate in the informal economy. They anticipate inflation and the devaluation of the currency.

Scarcity plays a fundamental role here, especially since selling scarce products is increasingly profitable. In poor neighborhoods, the resale of basic goods, which have almost completely disappeared from store shelves, is commonplace. Sellers can earn up to six times the original price of basic goods when reselling them on the black market.

Understanding the Fall of the Bolívar

Ramón Rey, economist and investigator at the Center for the Dissemination of Economic Knowledge (CEDICE), told the *PanAm Post* that the country's private manufacturing sector has slowed considerably. He says that in some cases it has ceased operations altogether, all as a result of the centralization of the economy and currency exchange regulations.

"Such a paradigm shift is mainly due to exchange controls established by the Currency Administration Commission (CADIVI) in 2003. This institution creates an increasingly rigid bureaucracy to obtain the dollars necessary to import raw materials and machinery necessary for the production of goods."

He says Venezuelan's lack of confidence in the bolívar is due to the country's high rate of inflation and price controls that discourage investment in businesses that require large amounts of capital.

"US currency essentially does not circulate in the domestic market, but the dependency on foreign goods and materials for production and sale creates a situation where all financial calculations are conducted in the North American currency," Rey said.

Argentina Thinks in Dollars

Carlos, a real estate agent based in Buenos Aires, told the *PanAm Post* that when he conducts property sales, he does so in dollars. "When it comes time to buy a house or apartment, clients will usually meet at a bank, notary, or in a 'cave' (a location where illegal currency exchanges are conducted). It is normal for the seller to bring the money in an armored truck, or to put it in a safety deposit box."

Restrictions on foreign currency means greater risk because buyers are forced to bring physical cash. However, there are those who prefer the risk of armed robbery over the risk of holding on to a depreciating Argentinean currency.

If the contract is agreed upon in Argentinean pesos, the transaction will happen while the buyer verifies there is no lien on the property — a process that can take up to a month. However, during this process, the original terms of the contact could change, as the Argentinean peso depreciates against the US dollar.

Guillermo Covernton, a professor at the Catholic University of Argentina, says that Argentineans often handle transactions in other currencies because, much like the Venezuelan bolívar, the value of the peso can fluctuate over a very short period of time.

$ COTIZACIONES		
DÓLAR OFICIAL		$ 8,46
DÓLAR BLUE	DÓLAR TURISTA	CTDO. CON LIQUI.
$ 14,65	$ 11,42	$ 13,85
EURO OFICIAL	EURO BLUE	EURO TURISTA
$ 11,01	$ 18,45	$ 14,86

The value of the dollar and the euro are published daily in the majority of Argentinean newspapers. (*Cronista*)

Currency depreciation also affects local businesses. According to Covernton, producers assume the cost of depreciation that occurs between the production stage and the time of sale. “You have to buy and sell like a criminal to receive dollars in exchange for a product,” he said.

Of course, it all depends on the type of activity an individual is engaged in. Those involved in importation have three alternatives to the the Argentinean peso: stop importing, apply for a quota from the Central Bank to purchase official US dollars, or buy and sell Argentinean bonds in US dollars.

Given the impracticality of discontinuing imports altogether, and the various obstacles inherent in dealing with the Central Bank, the majority of importers choose the third option, known as the “liquid dollar” in Argentinean slang. To get dollars this way, the importer purchases Argentinean bonds, then transfers the bonds to a foreign brokerage account, and from there sells the bonds for dollars. The dollars are then transferred to a foreign bank account.

As of October 9, one “liquid dollar” was valued at AR$13.85, cheaper than the illegal “blue dollar*,”* which is currently valued at AR$14.65.

According to Covernton, the only way Argentineans can begin to use pesos is if the monetary system stabilizes. If it doesn’t, producers will stop producing, and will lose everything in the long run.

**The names of individuals in this story have been changed to protect their identities.*

Elisa Vásquez contributed to this report.

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