Studies in Applied Economics

BUKELE'S BITCOIN BLUNDER

Steve H. Hanke, Nicholas Hanlon, and Mihir Chakravarthi
Bukele’s Bitcoin Blunder
By Steve H. Hanke, Nicholas Hanlon, and Mihir Chakravarthi

About the Series

The *Studies in Applied Economics* series is under the general direction of Professor Steve H. Hanke, Founder and Co-Director of the Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu).

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Abstract

El Salvador’s President Nayib Bukele has blessed El Salvador’s Bitcoin Law, a law that will make bitcoin legal tender. Among other things, the President has asserted that bitcoin is a cheaper method of sending and receiving remittances than the methods currently used for the transmission of greenbacks to El Salvador. We examine the validity of the President’s assertion, and conclude that the assertion is false.

Keywords: bitcoin, remittances

JEL Codes: F24
Introduction

In the middle of the night of June 8, 2021, El Salvador passed a law that made bitcoin legal tender.\(^1\) In support of the law, President Nayib Bukele asserted that it’s cheaper to send and receive remittance payments to El Salvador via bitcoin than via traditional money transfers. Bukele tweeted, “a big chunk of [remittances] is lost to intermediaries. By using bitcoin, the amount received by more than a million low-income families will increase in the equivalent of billions of dollars every year.”\(^2\) Let’s examine the validity of that assertion.

Background on El Salvador Remittances

Aside from Haiti, no other country in the Western Hemisphere relies more on remittance payments than El Salvador. In fact, according to the World Bank, in 2019, personal remittances as a percentage of GDP were an astounding 20.93% in El Salvador.\(^3\) The Associated Press states that, by the end of 2020, the figure for remittances to El Salvador was $5.92bn. That’s 4.8% higher than El Salvador’s 2019 remittances.\(^4\) In 2013, Inter-American Development Bank reported that 18% of all El Salvadoran households received remittances. These households received an average of $195 in remittances per month, with only 13% of those monthly payments being in excess of $350.\(^5\)

Background on Bitcoin in El Salvador

El Salvador was dollarized in 2001, when the colón was, in effect, mothballed.\(^6\) But in 2019, the coastal town of El Zonte adopted bitcoin as a local currency.\(^7\) El Zonte is now known as “Bitcoin Beach.” Participation in the bitcoin economy was optional and encouraged by gifts of bitcoin to El Zonte families. However, bitcoin did not catch on in Bitcoin Beach.\(^8\) Merchants and consumers struggled to make the payments app work on their phones, as internet connectivity in El Salvador is the second-worst in the Latin American-Caribbean region.\(^9\) So, even in Bitcoin Beach, the greenback is king.

El Salvador’s rejection of bitcoin is not limited to Bitcoin Beach. According to a June 2021 survey by El Salvador’s Chamber of Commerce, 92% of over 1600 respondents said they did not

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2 Bukele, N. (@nayibbukele). *Twitter*. [https://twitter.com/nayibbukele/status/1401337860343668736](https://twitter.com/nayibbukele/status/1401337860343668736)


7 Bitcoin Beach. [https://www.bitcoinbeach.com](https://www.bitcoinbeach.com)


agree with mandating the acceptance of bitcoin, and 93.5% said they did not want to receive their salaries in bitcoin.\textsuperscript{10}

**Traditional Remittance Costs**

Let’s take a look at the costs of making remittance payments from the United States to El Salvador using traditional money transfer services. The costs of these remittance payments (reported by the World Bank) vary depending on what the sender uses as a payment instrument (bank transfer, cash, or credit), and how the recipient receives the money (bank transfer, mobile wallet, cash, or credit).\textsuperscript{11} Detailed costs are contained in Table 1 and are summarized in Table 2.

*Table 1: Cost for remittance payments from the U.S. to El Salvador as of 2021 Q1*

<table>
<thead>
<tr>
<th>Firm</th>
<th>Method</th>
<th>Fee (USD) for $200 payment</th>
<th>Cost (%) for $200 payment</th>
<th>Fee (USD) for $500 payment</th>
<th>Cost (%) for $500 payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>Credit-Cash*</td>
<td>$6.00</td>
<td>3.00%</td>
<td>$6.00</td>
<td>1.20%</td>
</tr>
<tr>
<td>Western Union</td>
<td>Bank-Cash</td>
<td>$6.00</td>
<td>3.00%</td>
<td>$15.00</td>
<td>3.00%</td>
</tr>
<tr>
<td>Western Union</td>
<td>Cash-Cash*</td>
<td>$8.00</td>
<td>4.00%</td>
<td>$8.00</td>
<td>1.60%</td>
</tr>
<tr>
<td>Western Union</td>
<td>Credit-Mobile Wallet*</td>
<td>$0.00</td>
<td>0.00%</td>
<td>$0.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Bank-Bank</td>
<td>$0.00</td>
<td>0.00%</td>
<td>$0.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Credit-Bank*</td>
<td>$3.00</td>
<td>1.50%</td>
<td>$8.00</td>
<td>1.60%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Bank-Cash</td>
<td>$5.00</td>
<td>2.50%</td>
<td>$5.00</td>
<td>1.00%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Credit-Cash*</td>
<td>$5.00</td>
<td>2.50%</td>
<td>$10.00</td>
<td>2.00%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Cash-Cash/Bank*</td>
<td>$8.00</td>
<td>4.00%</td>
<td>$8.00</td>
<td>1.60%</td>
</tr>
<tr>
<td>Xoom</td>
<td>Bank-Cash**</td>
<td>$8.00</td>
<td>4.00%</td>
<td>$11.00</td>
<td>2.20%</td>
</tr>
<tr>
<td>Xoom</td>
<td>Credit-Cash*</td>
<td>$13.00</td>
<td>6.50%</td>
<td>$23.00</td>
<td>4.60%</td>
</tr>
<tr>
<td>Remitly</td>
<td>Bank/Credit-Cash</td>
<td>$6.00</td>
<td>3.00%</td>
<td>$9.00</td>
<td>1.80%</td>
</tr>
<tr>
<td>Remitly</td>
<td>Credit-Cash*</td>
<td>$8.00</td>
<td>4.00%</td>
<td>$11.00</td>
<td>2.20%</td>
</tr>
<tr>
<td>Ria</td>
<td>Bank/Credit-Cash</td>
<td>$5.00</td>
<td>2.50%</td>
<td>$5.00</td>
<td>1.00%</td>
</tr>
<tr>
<td>Ria</td>
<td>Cash-Cash/Bank**</td>
<td>$6.00</td>
<td>3.00%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Ria</td>
<td>Credit-Cash*</td>
<td>$8.00</td>
<td>4.00%</td>
<td>$9.00</td>
<td>1.80%</td>
</tr>
</tbody>
</table>

*Note: * indicates an instant payment. ** indicates a same-day payment.*

*Source: World Bank*

*Prepared by Professor Steve H. Hanke, The Johns Hopkins University*

\textsuperscript{10} Dudas y preocupación entre empresarios y consumidores ante circulación del Bitcoin en el país. https://camarasal.com/dudas-y-preocupacion-entre-empresarios-y-consumidores-ante-circulacion-del-bitcoin-en-el-pais/

\textsuperscript{11} Sending money from United States to El Salvador. World Bank: https://remitprices.worldbank.org/en/corridor/United-States/El-Salvador?order=field_cc1_total_cost_percent_cal&sort=asc#tab-1
Table 2: Average cost of remittance payments from the U.S. to El Salvador by firm

<table>
<thead>
<tr>
<th>Firm</th>
<th>Average remittance cost (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>1.98%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>1.67%</td>
</tr>
<tr>
<td>Xoom</td>
<td>4.33%</td>
</tr>
<tr>
<td>Remitly</td>
<td>2.75%</td>
</tr>
<tr>
<td>Ria</td>
<td>2.46%</td>
</tr>
</tbody>
</table>

*Source: World Bank*

Prepared by Professor Steve H. Hanke, The Johns Hopkins University

So, just how do El Salvador’s remittance costs stack up with those realized in other countries? El Salvador stacks up very well. Indeed, its average transaction cost as a percent of sending remittances of 2.85% per transaction is the sixth lowest of the 104 countries monitored by the World Bank. And, El Salvador realized the lowest cost of remittance transfers of any country in the Latin American-Caribbean region.\(^\text{12}\)

Bitcoin Remittance Costs

Before diving into the costs of receiving remittances via bitcoin, we must note that 82.5% of respondents in the aforementioned Chamber of Commerce survey do not want to receive remittances via bitcoin.\(^{13}\) El Salvadorans do not want bitcoin, they want greenbacks.

As things currently stand, El Salvadorans without a bank account (70% of the population) can only convert bitcoin to greenbacks at a bitcoin ATM.\(^{14}\) At present, El Salvador only has two active bitcoin ATMs. These ATMs reside in coastal villages that are located 3.7 miles apart—El Sunzal and El Zonte (Bitcoin Beach).\(^{15}\) The total population of the villages where the ATMs are located accounts for only a tiny fraction of El Salvador’s population.\(^{16,17}\) But, Athena, the manufacturer of one of El Salvador’s two bitcoin ATMs, has indicated that it plans to end this drought by installing over 1,000 ATMs throughout El Salvador.\(^{18}\)

*Figure 2: Map of El Salvador with Bitcoin ATMs*

Source: Coin ATM Radar

To exchange bitcoin for cash at a bitcoin ATM, one must pay a bitcoin ATM fee. Athena lists its bitcoin-sale fee at 5%, plus whatever network fees are being charged at the moment. These network fees are the cost of confirming and executing the sale. To facilitate more rapid transactions, Athena recommends paying higher network fees. On Athena’s website, it even recommends to “err on the side of higher fees.”\(^{19}\) It is worth mentioning that bitcoin transactions may never be consummated unless a large enough network fee is paid. That’s why Athena recommends paying higher fees. So, the “remittance cost” when El Salvadorans exchange their bitcoin for dollars is at least 5%, even before factoring in the network fees, the travel costs associated with going to an ATM, and the safety and security costs associated with using an ATM in El Salvador.

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\(^{13}\) Dudas y preocupación entre empresarios y consumidores ante circulación del Bitcoin en el país. https://camarasal.com/dudas-y-preocupacion-entre-empresarios-y-consumidores-ante-circulacion-del-bitcoin-en-el-pais/


\(^{18}\) Athena Bitcoin (@AthenaBitcoin). Twitter. https://twitter.com/AthenaBitcoin/status/1405288824389791745

\(^{19}\) How to withdraw cash at an Athena ATM. Athena. https://www.athenabitcoin.com/how-to-sell
Conclusion:

El Salvador’s President Nayib Bukele blessed El Salvador’s Bitcoin Law, asserting that making bitcoin legal tender would reduce remittance costs. But at present, Bukele’s assertion is incorrect. As things currently stand, the cost of using bitcoin to send remittances to El Salvador is not, in fact, cheaper than traditional money transfer services. Indeed, at present, traditional transfer methods are the cheapest way to make remittance payments.

The remittance fees for each of the money-wire transfer services are contained in Table 3. According to the World Bank, the average realized fee is, in fact, 2.85%. El Salvadorans want greenbacks, not bitcoin. So, if sent remittances in bitcoin, El Salvadorans (at present) have to convert their bitcoin to dollars at a bitcoin ATM. Therefore, the minimum cost of receiving remittances via bitcoin is 5% plus network fees plus the costs of travel, safety, and security. This is clearly at least double the average fee realized when using traditional methods.

### Table 3: Remittance fee ranges

<table>
<thead>
<tr>
<th>Method</th>
<th>Remittance fee range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>0% – 4.00%</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>0% – 4.00%</td>
</tr>
<tr>
<td>Xoom</td>
<td>2.20% – 6.50%</td>
</tr>
<tr>
<td>Remitly</td>
<td>1.80% – 4.00%</td>
</tr>
<tr>
<td>Ria</td>
<td>1.00% – 4.00%</td>
</tr>
<tr>
<td>Bitcoin</td>
<td>5.00% + network fees + travel costs + safety &amp; security costs</td>
</tr>
</tbody>
</table>

Sources: World Bank, Athena
Prepared by Professor Steve H. Hanke, The Johns Hopkins University

We don’t yet know the future of El Salvador’s bitcoin modalities. The Bitcoin Law was hastily put together in the middle of the night by what appear to be amateurs. New pieces to the puzzle and how they would fit together appear with each passing day. So, an assessment of the puzzle’s final shape is impossible to make at this point.

Not only President Bukele, but many of the bitcoin evangelicals are factually unhinged. For example, Jack Mallers, the CEO of Strike, which is a mobile payments app that will apparently receive a monopoly franchise to service El Salvador, had this to say about remittances: “If you try to send $50 to El Salvador, it will cost you 25 bucks.”[^20] The World Bank’s remittances data archives make clear that these statements are fanciful. Indeed, it’s nothing more than bitcoin evangelical disinformation.

References


Bitcoin Beach. https://www.bitcoinbeach.com


How to withdraw cash at an Athena ATM. Athena. https://www.athenabitcoin.com/how-to-sell


Sending money from United States to El Salvador. *World Bank.*
