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## The Great Bitcoin Experiment: A Social Analysis of Cryptocurrency in El Salvador

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The Great Bitcoin Experiment: A Social Analysis of Cryptocurrency in El Salvador

An Honors Thesis

Presented to

The Faculty of the Department of Science, Technology, and Society

Colby College

In partial fulfillment of the requirements for the

Degree of Bachelor of Arts

By

Quinnlan Burke

Waterville, Maine

April 24, 2022

## **Signature Page**

## **Abstract**

This thesis will explore the socioeconomic implications of President Nayib Bukele of El Salvador's decision to change the country's national currency to Bitcoin. The aim of this research is to unravel the various competing personal, political, and social ethos driving change in El Salvador, and their direct impact on Salvadoran people. In order to properly contextualize the rise of Bitcoin in El Salvador I will provide historical background pertaining to the United States' military intervention. An analysis of Nayib Bukele's Twitter account will be included in order to provide perspective on Cryptocurrency developments in El Salvador. A dissection of his use of the platform including his word and graphic choice, the frequency and timing of his tweets, as well as the overall content of his message will help in understanding his personal motivation both in the context of his presidential decision making, and his communication and public image. An overall analysis of the socioeconomic impact of cryptocurrency on citizens drawing on a variety of sources including academic, general media, and primary source will provide a robust, comprehensive view of the current socio economic climate in El Salvador. Contextualizing this unprecedented economic event will provide insight into what this could potentially mean for society as a whole. Ultimately the goal of this research is to outline a case study of the impact of cryptocurrency on the socioeconomic structure of a nation, and use the findings to provide a framework for the impact of cryptocurrency at a macro scale.

## **Acknowledgements**

First things first I would like to extend my gratitude to Prof. Ashton Wesner for being so supportive and accommodating throughout this entire process. There's absolutely no way the idea for this thesis comes to fruition without her guidance. The past few years studying STS have been quite a journey, but I feel as if I've come out on the other side a more well rounded and intellectually curious individual, and it's thanks in no small part to her.

I'd also like to extend my thanks to the outside readers for this thesis: Prof. Rob Lester and Peter Mahlberg. Their insight was crucial in formulating the arguments, and their feedback helped me find data and evidence to support my economic analysis and claims. Prof. Lester and his wife just recently gave birth to a baby boy, and I truly appreciate him offering his expertise during what must be an exciting and challenging time.

I wish to extend my thanks as well to Prof. Aaron Hanlon, my advisor and head of the STS department, for his support throughout this process.

Thank you to all the librarians, classmates, professors, and friends that played a part in the creation of this body of work. Finally, thank you to my parents, Melissa and Ray, for supporting me and taking a chance on making all of this possible. An honors thesis, who would've thought!

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## **Introduction**

Cryptocurrency is a new financial technology that has been rapidly gaining notoriety throughout the world. Bitcoin, the genesis cryptocurrency, has risen to become one of the most expensive assets money can buy. Despite the meteoric rise of crypto and the booming industry around it, much of the market is speculative. Little is known by the general public about the major players and original creators in the space, and a large percentage of crypto use occurs behind the scenes. There are causes for concern around crypto driven in large part by its ambiguity. It is an asset that is difficult to regulate and tax. The lack of control means it is susceptible to massive price swings. It's use in criminal activities and financial schemes is starting to become evident. Despite how volatile and mysterious crypto is, the President of El Salvador decided to change his country's National currency from the US Dollar to Bitcoin.

This thesis will explore the implications of Bukele's decision to transition El Salvador to Bitcoin highlighting the social and economic impact to everyday citizens. The ultimate goal of this piece of writing is to attack the inconsistencies brought about by crypto, while providing a framework/means of understanding how cryptocurrency is being utilized in contemporary society. This will hopefully provide context for cryptocurrency use cases in juxtaposition to the ideology behind these currencies. One of the most essential parts of this thesis is conveying how the current crypto initiatives in El Salvador are affecting working class people that reside there. Furthermore, I will explore social or economic benefits received from new policies, and how the switch from standard currency to Bitcoin has potentially harmed the Salvadoran people. I'm also hoping to investigate the underlying values and assumptions inherent in Bukele's public facing discourse about Bitcoin, along with a critique of the limitations of his policies. It's obviously naive to think that Bukele made the switch to Crypto purely out of his desire to help the

Salvadoran people. Contemporary politics are rife with the influences of big business and political action committees. Politicians receiving lobbying kickbacks is not a novel occurrence.<sup>1</sup> It would not be far-fetched to say that Bukele seeks to receive some sort of personal gain from his policies, whether it be direct or indirect.

With rumors swirling around about his connections to organized crime and the past history of El Salvador it's easy to identify possible narratives involving corruption and financial irresponsibility/fraud within the government and El Salvador's 1%.<sup>2</sup> Being aware of the history of US intervention in El Salvador is critical to understanding Bukele and his decision making. This thesis will explore the bloody history of the Salvadoran civil war, which took place from 1979-1992, and provide analysis on the implications of US intervention. Many of the changes caused by the United States play a major role in the formation of the social and economic dynamic in El Salvador today. There are numerous parallels between the current economic and social situation in El Salvador and the policies enacted upon El Salvador by the US Government as part of their international relations policy during the 1980s. Essentially, El Salvador is a victim of McCarthyism and the Red Scare. The socialist movement in El Salvador immediately put them at odds with America. This was during a period of heightened anxiety towards communism and socialist movements, especially concerning Central and South American nations.

This thesis will explore what role socialism and subsequent conflicts had on El Salvador as a country, specifically in terms of policy, and social development. I will also analyze how capitalistic ideology has seeped into cryptocurrency, and how the technology is being molded to fit existing capitalistic frameworks. Ultimately the juxtaposition between strong socialist ideologies and the hypercapitalistic nature of crypto implementation creates a fascinating

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<sup>1</sup> Harstad and Svensson, "Bribes, Lobbying, and Development."

<sup>2</sup> "U.S. Accuses El Salvador of Cutting Secret Deal with MS-13 to Tamp down Killings - The Washington Post."



situation to analyze in El Salvador. While the people of El Salvador have a long history of supporting socialist movements, the regime currently in charge opposes many of their historically held cultural beliefs. This is a trend cropping up in various parts of Central America, all stemming from American intervention.

I hope to unpack some of the current issues surrounding the intertwining frameworks at play in El Salvador, while also making some predictions about how this could play out domestically and on the world stage. How will the competing libertarian, socialist, and capitalist forces ultimately decide the direction of Bitcoin in El Salvador. For me one of the most fascinating parts of this research is trying to predict where El Salvador and the rest of the world will go from here. Will other countries follow suit and switch their national currency to Bitcoin or an alternate cryptocurrency? Will Bukele's decision bring prosperity to El Salvador or economic ruin? I think there are a number of historical events that parallel what's happening currently in El Salvador. I will use these events to make comparisons and predictions for El Salvador. The goal of using these examples is to provide context for El Salvador's economic situation as well as explain the current trajectory of cryptocurrency in terms of historical processes that are tangible. In the case of El Salvador these processes are determined by the competing libertarian values behind bitcoin, the socialist values of the people of El Salvador, and the capitalist/neo-liberal values of governments and organizations like the IMF, The World Bank, and the US Government.

It is entirely possible that the competing ideological frameworks jockeying to control the interests of Bitcoin in El Salvador will eliminate any potential to provide autonomy and benefit to citizens of El Salvador. The invention of the Lottery in Renaissance Era Italy provides a solid example of how the ideas of private citizens can easily be co opted by the state.<sup>3</sup> This

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<sup>3</sup> "Cryptocurrencies May Be Too Libertarian for Their Own Good - Bloomberg."

comparison lends itself well to the current situation in El Salvador, the state is utilizing neoliberal technology to promote existing capitalist ventures for their own gain.

Masquerading a technology designed to promote financial freedom and transparency as a way of increasing personal wealth and drawing in foreign investment. Bukele pushes his crypto agenda yet so far it has failed to impact the majority of Salvadorans in any meaningful way. The majority of citizens work in the unofficial sector and deal strictly in cash payment. Crypto will have little if any impact on their lives beyond superfluous community improvements. The disconnect between the people and the government will be explored at length within this thesis.

## Literature Review

A popular perception in media and popular culture is that Bitcoin is a wealthy tech mogul asset. The popular media often portrays crypto and the people invested in a similar light to silicon valley people. The underlying narrative is that Bitcoin is employed as a mechanism to help the wealthy accumulate more wealth, through the implementation of new digital currency.<sup>4</sup> While Bitcoin has certainly been pursued as an investment opportunity by many high profile entrepreneurs, its accessibility provides intrigue.<sup>5</sup> Like many innovative forms of technology, cryptocurrency is susceptible to the influences of existing social systems. Bitcoin, as the genesis cryptocurrency, has had the most exposure to the transformative capabilities of these systems, and ultimately emerged from said systems. Capitalistic structures have already woven their way into Bitcoin adoption. Bitcoin was created to be impervious to the control of central governing bodies, it's directly referenced in the Bitcoin Whitepaper, "What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party."<sup>6</sup> Despite these sentiments, we are already witnessing the nationalization of Bitcoin in El Salvador. Some of the world's most powerful financial institutions have been purchasing large quantities of Bitcoin and other cryptocurrencies. The world's largest hedge funds have been trading crypto at a volume over 1 trillion dollars in value.

According to the researchers at the University of Tennessee, Bitcoin has the potential to provide safe, stable banking deposits and easy access to proprietary online banking for people

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<sup>4</sup> Kondor et al., "Do the Rich Get Richer?"

<sup>5</sup> Lee, *The Promise of Bitcoin*.

<sup>6</sup> Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System."

who lack consistent financial service accessibility.<sup>7</sup> In countries with poor infrastructure it can be difficult for people in rural areas outside of service centers to get access to services such as education, steady employment, health services, and shelter. Due to the instability that comes with living in places like these, it can be difficult to get access to the tools needed to gain financial literacy. Even if financial literacy is attained, lack of access and social barriers can hamper economic progress. While it is not always the case, many people in developing nations have access to smartphones and internet connection.<sup>8</sup> Circumstances are obviously different for people depending on location, family life, and financial situation. Some people may share a single phone amongst their whole family. Some may only have access to public devices. Many hurdles may be involved in gaining access to a reliable computer or smartphone. Without the luxury of personal wifi, some individuals may have to travel to find public internet. Additionally, countries with poor infrastructure may have poor banking systems, making online banking challenging. For low-income people many of the difficulties posed by cryptocurrency can seem daunting. However, there are a number of protocols built into the technology, designed specifically to combat some of these challenges

One of the innovations provided by blockchain technology are crypto wallets. An example of one of the more popular crypto wallets is MetaMask. Metamask is primarily an ethereum wallet, but it can be modified to interact with other blockchains, such as the Binance Smartchain and the Matic Network. Users can safely store currencies purchased on these blockchains, and seamlessly connect their wallets to a wide variety of investment platforms. Each MetaMask wallet comes with a secret recovery phrase that provides security for the funds inside. As long as this phrase is kept confidential, the user has little worry over their assets being

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<sup>7</sup> Iii, "The Future of Bitcoin: Mapping the Global Adoption of World's Largest Cryptocurrency Through Benefit Analysis."

stolen. MetaMask is compatible with most major debit and credit cards and can connect directly to a bank account, paypal, and even Apple Pay. The wide variety of payment options make wallets such as MetaMask accessible to most people with a bank account and internet access. Alternatively, there are online wallets and cold wallets (offline) that don't require access to a bank account to store cryptocurrencies, similar to how Cashapp functions as a bankless alternative to Venmo.<sup>9</sup> One of the best features of MetaMasks secret recovery phrase is that it makes the account easily transferable to different devices. That way, if someone does not have consistent access to the same device, they can always log into their wallet.

For many people without access to a reliable bank and trustworthy financial service, storing money can be complicated. It can be risky to store it in your home or keep it on your person. This is what is so compelling about crypto wallet technology. It may be worth it, even if it is a risky trip, for someone to travel long distances to deposit liquid funds into an online bank and subsequently, a crypto wallet. The security alone may be enticing enough for someone who wishes to incur savings and provide financial stability for themselves and their loved ones.<sup>10</sup> Additionally, access to a MetaMask provides the user with compatibility to investment technology. Users can convert one crypto asset into another on protocols like SushiSwap, UniSwap, and PancakeSwap. While these names may appear comedic or fraudulent, these protocols actually provide unparalleled access and investment opportunity.

Another benefit of crypto wallets is that many are compatible with crypto yield farms. Yield farms offer users the opportunity to stake their crypto assets in vaults. As a reward for providing liquidity, these protocols reward users with a percentage yield for holding their asset in the vault for a given period of time. Staking crypto in a yield farm provides liquidity for creators

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<sup>9</sup> "Getting Started with Cash App."

<sup>10</sup> DEMİRĞÜÇ-KUNT and KLAPPER, "Measuring Financial Inclusion."

to build on the blockchain. Depending on the specific blockchain or currency, liquidity may be used to build apps and games, solve functions, and complete tasks. By creating or adding value to the chain and increasing on-chain activity value is increased and stakers are rewarded. The person staking their asset is ultimately accepting the risk of volatility. Sudden price changes are reflected in the value of the yield. When the market is up or activity on the blockchain is high, yields tend to return at a higher rate. In bear markets and times of low activity holders can suffer losses due to dilution of the value of the yield. When the price drops the value of the yield is inherently less, and low activity often results in low rates of return. This technology, if utilized correctly, can be a safe way for people to earn returns on their crypto assets. Many of these programs are intuitive, and some will even automatically invest crypto in yield farms for the user.

One of the systemic issues often associated with developing nations is strict economic regulation. This could be for a number of reasons: political institutions, war, and even attempts to rebuild infrastructure. Whatever the case, it can make it very difficult for citizens to gain access to capital. Luckily, cryptocurrency is decentralized, meaning it cannot be regulated by a government or a singular institution. Most legal government tender is fiat currency, meaning it is not backed by a particular asset such as gold or silver. These currencies are centralized, because they are regulated by a complex system of regulatory bodies and a variety of financial institutions. Essentially, these currencies derive their value from the size and power of the government and economy that supports them. For example, the US Dollar is more valuable than the Bolivian Boliviano, because of the difference in economic prowess and influence. Bitcoin on the other hand, boasts a two pronged approach to value. It derives value from both its scarcity, the supply limit, and the holder's belief in its value as a digital currency. No centralized

governing body can control the price or flow of Bitcoin, and while there is inherent risk in the fact that people could lose faith and the value could plummet, if a person's issue is access and use, then cryptocurrencies like Bitcoin may be a more viable option.

A major obstacle for people in tough financial situations are transaction fees for banking and credit. In addition to high fees, many transactions require a third party for verification. This can cost valuable time and bring on additional financial burden. Many cryptocurrency protocols aim to solve both of these issues. Bitcoin, for example, acts as its own third party authenticator on transactions, skipping the middleman. The Ethereum and Matic networks were built specifically to minimize transaction fees. Some fees on the Matic Network can cost less than a tenth of a cent. This has the ability to completely revolutionize access to financial services for people who are plagued by expensive fees in the traditional financial system.

One of the most prevalent issues in countries with poor infrastructure is corruption. Many of the existing financial institutions may be untrustworthy. People in positions of power may not be trusted to act responsibly with money. Cryptocurrency promotes transparency and financial accountability. Bitcoin, for example, has a public ledger built into the blockchain. Every transaction made on the blockchain is recorded, meaning people have a way to prove authenticity of ownership in countries where this process can be complicated or shady. Approximately \$1 trillion dollars was spent globally on bribes in 2002.<sup>11</sup> Countries with developing infrastructure are prone to issues controlling bribery and corruption. This causes bureaucratic inefficiency resulting in slowed economic growth and development, misuse of skilled workers, regressive tax policies, supply chain disruption, and even threats to governmental stability. Corruption in developing nations is typically caused by an established set of socio-economic circumstances. The most common factors for countries in Central/South America include massive wealth gaps

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<sup>11</sup> Nwabuzor, "Corruption and Development."

which exacerbate financial and social inequality, lack of attention to poverty, limits to economic freedom, and breakdowns in the judicial and regulatory systems.<sup>12</sup>

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<sup>12</sup> Nwabuzor.



## Crypto Perspectives

### Harmful Misuse of Cryptocurrency

Most negative discourse about crypto in popular media and academic circles centers on volatility, use case, and inherent value. For many crypto is still seen as very niche, so for some portions of society the adoption and value is seen as centered to the crypto community. The value of many of these currencies is supported by people's belief in their inherent value, this makes the crypto market very volatile. This makes some investors worried about the long term adoption of crypto, as well as its status as currency. What also worries some are security breaches. There have been instances of crypto being stolen. Hackers have been able to exploit wallets and steal crypto assets in the past.

Illicit activities are another major concern concerning cryptocurrency use. Bitcoin is commonly used as a medium of exchange to complete dark web transactions. Bitcoin plays a central role in the dark web economy. It is a fast, reliable, and nearly untraceable form of payment. The dark web is often used to perpetrate crimes and illegal activities including but not limited to: The illegal sale of drugs, weapons, and information, human trafficking, murder for hire, and terrorism.<sup>13</sup> The amount of criminal activity funneled through Bitcoin should be a major cause of concern for governments. The anonymity of both the dark web and Bitcoin make them an ideal pair that create a uniquely challenging problem for law enforcement to deal with.

Perhaps most frustrating for governments is the potential for Bitcoin to be used as a means of tax evasion. Cryptocurrencies are considered taxable properties within US tax codes, however cryptocurrencies like Bitcoin provide a substantial functional benefit to people

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<sup>13</sup> Piazza, "BITCOIN IN THE DARK WEB: A SHADOW OVER BANKING SECRECY AND A CALL FOR GLOBAL RESPONSE."

attempting to avoid paying taxes.<sup>14</sup> Cryptocurrencies open up new avenues for transferring capital discreetly and efficiently, that fiat currencies are unable to provide. The problem for most governments is that the cost and coordination required to root out high level crypto tax evasion is enormous.<sup>15</sup> The ability to transcend international borders with Bitcoin is the central issue with tax evasion. Identifying international perpetrators requires governments to pool resources and share information which is expensive and unlikely.

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<sup>14</sup> Iacurci, "Cryptocurrency Poses a Significant Risk of Tax Evasion."

<sup>15</sup> Slattery, "Taking a Bit out of Crime: Bitcoin and Cross-Border Tax Evasion."

## **Cryptocurrency as a Force for Progress**

There are many ways in which crypto currency can benefit people with limited financial access. They have the ability to create new financial situations for people regardless of their initial background. One positive innovation provided by crypto is their use for remittance payments. When people come from abroad to new countries it can be incredibly difficult to transfer funds and send money to family back home. For refugees, the cost to exchange currencies can be incredibly high depending on market conditions, and in some places currency transfer may be shut down for periods of time due to conflicts. Bitcoin eliminates these difficulties by allowing users to store their funds in a digital wallet, and easily convert into various currencies, without the hindrances of centralized government and finance institutions. In situations where it's not possible to maintain a cellphone, or where there isn't reliable access to wifi, a cold wallet would be optimal for refugees. Cold wallets are offline cryptocurrency storage devices similar to usb flash drives. Accessing cold wallets could prove difficult; some wallets cost hundreds of dollars and secondhand wallets may be tampered with.<sup>16</sup> However there are cheap reliable alternatives, and provided refugees can access these devices they would eliminate issues regarding travel, cost, and internet reliability.

An intriguing aspect of recent innovation in cryptocurrency is the prospect of breaking down barriers to accessibility. The financial accessibility these technologies provide open new opportunities for growth and entrepreneurship in places that have never had access like this before. People in rural and underserved areas have potential opportunities to provide and encourage financial stability and improvement in their communities.<sup>17</sup>

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<sup>16</sup> "How to Choose a Hot Wallet or Cold Wallet for Your Crypto, and Whether You Need One at All."

<sup>17</sup> "Workers in the Global South Are Making a Living Playing the Blockchain Game Axie Infinity."

While the potential crypto technology shows to improve peoples financial health is encouraging, there are some social and cultural factors to keep in mind in regards to the implementation and adoption of foriegn technology. According to the United Nations Research Institute for Social Development (UNRISD), “Technology solutionism can be contrasted to more holistic anthropological perspectives concerned with understanding the socially embedded use of technology in particular political and cultural settings. Technology does not operate in a vacuum, and Bitcoin systems do not just descend on “poorer countries” for the empowerment of all. The solution gets sold by particular people and adopted by particular people within particular contexts.”<sup>18</sup> While the blockchain technology behind Bitcoin theoretically may have the ability to provide financial accessibility and stability, that does not necessarily mean it will be implemented in that fashion. Certain people may take advantage of the opportunities due to specific circumstances. While others may choose not to adopt the new technology, based on belief or lack of access.

DeFi games are a new phenomenon within decentralized finance and the larger crypto movement that have the potential to provide additional income to working people. DeFi games utilize NFT (non-fungible token) technology to allow players to earn money by trading and selling in-game items. Many DeFi games center around a play-to-earn model of gaming. The more time players invest into the game, the greater the rewards. One of the more popular DeFi games on the market currently is Axie Infinity. Axie Infinity is similar in many ways to the Pokemon style of games. It allows players to battle, trade, and level up mythical creatures. Players can trade their individual "Axies" or use the native SLP token to breed new creatures. SLP stands for "Smooth Love Potion" and functions as both a consumable in-game item and a

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<sup>18</sup> Nir Kshetri, “Will Blockchain Emerge as a Tool to Break the Poverty Chain in the Global South?,” *Third World Quarterly* 38, no. 8 (2017): pp 9.

cryptocurrency. SLP currently has a value of \$0.02, but has been as high as \$0.04 in the past year. While a few cents might not seem like much money, Axie Infinity has been life-changing for people in developing nations. In the Philippines in particular, Axie Infinity players have been able to quit their jobs, get out of debt, pay for vital life-saving medicine, purchase property, and repair their homes.<sup>19</sup> Axie Infinity has noticeably increased the quality of life for DeFi gamers in the Philippines. One player nicknamed "Porky" sold \$20,000 worth of in-game items during a surge in value and was able to quit his job to focus on Axie Infinity full time.<sup>20</sup>

While the game may seem like a fleeting way to make a quick buck, there are real jobs within the ecosystem that can provide long-term, stable income. This is revolutionary to many people in developing nations, where the jobs available domestically don't provide nearly the same level of monetary support. Porky, for example, runs a scholarship system through Axie Infinity. He lends players Axie characters in exchange for a percentage of their earnings. These characters can be hundreds of dollars on the low end due to the popularity of the game, making it difficult for people in developing nations to break into the DeFi gaming space. Luckily, scholarship programs like the one run by porky allow less fortunate players access to Axie Infinity. Players can work to buy their character through the scholarship program, and go on to monetize however they see fit. They can even start their own scholarship program. As DeFi games like Axie Infinity continue to evolve, the possibilities for financial inclusivity are endless. Austrian entrepreneur Yat Siu said DeFi gaming is having its "Angry Birds moment" with Axie Infinity. This is quite possibly just the beginning of DeFi gaming, with the space set to explode in the coming years. Hopefully, as DeFi gaming grows, so will access and availability for people in developing nations.

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<sup>19</sup> Nunley, "People in the Philippines Are Earning Cryptocurrency during the Pandemic by Playing a Video Game."

<sup>20</sup> "'Life-Changing' or Scam? Axie Infinity Helps Philippines' Poor Earn."

## Emergence of Bitcoin in El Salvador

The current crypto experiment occurring in El Salvador is certainly something to keep an eye on. El Salvador's current president/dictator Nayib Bukele is a polarizing figure to say the least. Highly thought of by the Salvadoran people<sup>21</sup> Bukele has used his popularity and political power to institute many controversial laws. While Bukele has maintained a strong approval rating throughout his presidency, hovering at or above 75%<sup>22</sup>, his opposition is equally staunch. It's also important to consider who can participate in these surveys, considering only 50% of Salvadorans have consistent access to the internet and a cellphone.<sup>23</sup> One of his more well known political moves was making El Salvador the first nation to accept Bitcoin as legal tender. Bukele announced recently that he plans to issue the first ever government bond backed by Bitcoin. Reactions have been mixed.

Existing institutions on Wall Street and the International Monetary Fund (IMF) believe the volatility of the price of Bitcoin makes Bukele's bond inherently too risky. However, these institutions have a stake to lose if developing nations like El Salvador can find a way to raise funds outside of traditional financial institutions. There is over \$1 Trillion in Bitcoin available for investment in the private sector.

El Salvador's economy has been crippled severely by the adoption of the US Dollar as its official currency. Nearly two decades have passed since adoption, and El Salvador struggles to this day with fundraising. They cannot print their own currency, so they must rely on state industry or borrowing to fund domestic projects. This severely limits their access to capital and hurts their overall spending ability.

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<sup>21</sup> "LPG Datos | Aprobación de Bukele, Casi Indemne."

<sup>22</sup> INFO, "Nayib Bukele Approval Rating. Majority of Salvadorans Approve of Bukele."

<sup>23</sup> "Internet Penetration in El Salvador 2025."

It's unclear as of yet whether Bukele's decision to change El Salvador's national currency to Bitcoin was done for personal gain or for the betterment of the nation. Undoubtedly Bukele is capitalizing on the popularity of Bitcoin with the goal of raising tons of money for El Salvador. Whether or not the money raised is used to help the people of El Salvador remains to be seen. Bukele has already been accused by foreign media and government officials of much of the same corruption he swore to root out when he first took office. There are rumors that many of the positive trends in crime in El Salvador are due to secret deals he made with drug traffickers, and the disposal and replacement of much of the Salvadoran judicial branch.<sup>24</sup> The US Treasury levied sanctions against Salvadoran government officials for cutting deals with MS-13 gang members in 2021.<sup>25</sup> There is also concern amongst human rights activists in El Salvador that the national crypto wallet, Chivo (salvadoran slang for "cool"), is fraudulent. Citizens were promised \$30 dollars in free Bitcoin, but at least 1,000 Salvadorans have signed a petition claiming their identities were stolen as well as the \$30 worth of Bitcoin.<sup>26</sup>

President Bukele certainly has lofty goals for the future of El Salvador and Bitcoin. He has proposed building a Bitcoin City, and aims to integrate cryptocurrencies beyond just Bitcoin as a staple of El Salvador's economy and tourism. While Bukele attempts to capitalize on the sweeping crypto craze, many of the country's residents reside in limbo. Nearly two-thirds of Salvadorans work in the informal sector, where cash remains king. Only time will tell what kind of effects these policies will have on El Salvador and its people in terms of long term financial wellbeing and stability.

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<sup>24</sup> "US Concerned over Removal of Top Salvadorean Judges."

<sup>25</sup> "U.S. Accuses El Salvador's Government of Cutting a Deal With Gangs - WSJ."

<sup>26</sup> "Can Bitcoin Be a National Currency? El Salvador Is Trying to Find Out. - WSJ."

## **The Salvadoran Civil War: US Economic intervention in El Salvador**

El Salvador's current economic, social, and political climate has been largely influenced by US foreign policy. This section will outline the United States' role in the civil conflict in El Salvador emphasizing the competing ideological interests. The United States' involvement and subsequent military and economic impact will be analyzed and put into context with contemporary economic changes regarding Bitcoin and the influences of cryptocurrency on the populace of El Salvador.

The US has a long history of intervening and meddling into El Salvadoran affairs. In the 1980's, El Salvador experienced a brutal civil war. Left wing revolutionaries fought ferociously against an amalgamation of capitalists, military leaders, and supporters from outside countries. The US provided strong support to the El Salvadoran regime battling the rebels. Over 75,000 El Salvadorans died in the conflict, with a large number of the casualties being non-military personnel and civilians. The tactics used by the existing Salvadoran regime were remarkably brutal. They perpetrated mass shootings of peasants and suspected revolutionaries. Military death squads had the habit of displaying prominent left wing leaders and protestors dead bodies on the roadside, as a warning to potential perpetrators.

This conflict came to a head during the Reagan administration, right in the midst of the red scare, McCarthyism, and general anti-communist sentiment. Reagan and the American Government were in the midst of a massive spending spree to fund anti-communist conflicts in El Salvador, Nicaragua, and throughout Central America. In 1984 alone the US government committed to spending \$450 million dollars to fund the conflict in El Salvador, that's a contemporary valuation over \$1.2 billion.<sup>27</sup>

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<sup>27</sup> Smith and Times, "REAGAN PLANNING ARMS AID INCREASE FOR EL SALVADOR."



As recently as 2018, the El Salvadoran judicial system persecuted former military personnel who were complicit in the El Mozote Massacre, which took place nearly forty years prior in 1981. In search of a suspected insurgent base camp, American trained El Salvadoran military personnel descended on the small village of El Mozote. Soldiers torched the village and separated the men from the women and children. By the end of the siege over 1000 people had died, nearly half of them being minors, culminating in the largest mass-murder event in Central American history.

This is just one small instance of how US intervention in El Salvadoran affairs has exacerbated issues that continue to plague the country today. Ultimately, “The U.S.-fueled war drove tens of thousands of Salvadorans to flee the violence for safety in the United States. In the mid-90s, Clinton allowed their “temporary protected status” to expire. This decision contributed to the gang violence that marks El Salvador today—not long ago, when a day passed without a murder, it was banner news.” These words are incredibly poignant. The long history of violence and crime that plagues El Salvador is due in large part to the actions of the United States. In its quest to defend America from communism, the US Military destroyed an entire country. The US provided economic and military support to anti-socialist groups in El Salvador. The support and funding allowed these organizations to maintain and establish power frameworks long after the conflict ceased, bolstered by US funded government institutions and military installations.<sup>28</sup> The efforts we see to incorporate Bitcoin and other cryptocurrencies into the current El Salvadoran economy stem from economic issues initially caused by America. It is an indictment on the US Government that El Salvador has to attempt such a risky experiment in order to improve the wellbeing of the country and its people.

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<sup>28</sup> McKinney, “Twelve Years a Terror.”

Much of the inherent risk of President Bukele's decision to change El Salvador's national currency to Bitcoin is tied to the volatility of cryptocurrency. Crypto markets are highly speculative in their current state, the price of Bitcoin and Ethereum rise and fall regularly, and alt-coins are prone to completely disappear overnight. Bukele is betting heavily on Bitcoin adoption and the financial rewards for El Salvador that would come with that. However, it appears Bukele's ulterior motive may be to use Bitcoin to drive the tourism industry in El Salvador. This is evidenced by his grandiose Bitcoin City plan. His promise of no income tax and increased economic freedom points to plans to ramp up immigration and tourism in El Salvador, a quick peek at the youtube comments on Bukele's FeelTheBit keynote shows plenty of foreign excitement about the developments underway, as well as wishes to visit El Salvador in the near future.<sup>29</sup> It's possible that El Salvador's transition to Bitcoin use is a short term play to capitalize on the current crypto craze, and the vast amounts of money flooding into not only Bitcoin, but NFT's and DeFi Games as well. Bukele's plans to erect a neofuturistic Bitcoin city could establish El Salvador as a major tourist destination, regardless of the future outcome of Bitcoin or crypto as a whole. His policies could enable much of this to occur using foreign money, however it's equally likely that it comes with the exploitation and manipulation of the El Salvadoran people.

The volatility of crypto and the lack of public education on crypto technology is already hurting small business owners in El Salvador. El Salvador has a large merchant economy and the constant rise and fall of Bitcoin means that a sudden dip can be detrimental to small business owners and their families. The economic stability of these families is tied directly to the performance of crypto markets, which is an incredibly unstable way to live. Centralized

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<sup>29</sup> CoinDesk, *Bitcoin City - El Salvador President LIVE at #FeelTheBit*.

currencies have their own host of issues, but they aren't subject to incredible swings like cryptocurrencies currently are. Additionally, cryptocurrency adoption rates globally are currently low, sitting below 4%. Lack of adoption results in a lack of trust, which makes cryptocurrencies a poor medium for exchange and storing value. This hampers the economic mobility of many Saldavorans, especially when also considering inconsistencies in internet access.

“Bitcoin suffered one of its biggest-ever drops, plummeting by nearly half at the beginning of January. Moza’s crypto holdings plunged to around \$4,500, wiping out a good chunk of her clothing business earnings.

“I lost almost half of what I had invested. I tried to change what I had left into dollars, but I had difficulties with the Chivo Wallet,” Moza explained. “Nobody taught us what to do when the price falls.”<sup>30</sup>

Bukele’s administration continues to push the use of Bitcoin in everyday transactions, without proper education or maintenance of crypto services. The Chivo Wallet is plagued with bugs that have resulted in major losses for small business owners. Ultimately, the future of Bitcoin will decide the economic futures of so many in El Salvador.

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<sup>30</sup> Laguán, “El Salvador’s Small Merchants See Lure of Bitcoin Riches Snatched Away as Crypto Prices Crash.”

## President Bukele Twitter Analysis

One of the most fascinating aspects of the Bukele regime is his use of Twitter. Unlike most politicians and public figures who employ a publicist or social media manager, Bukele does not. It is evident that his tweets are his own.<sup>31</sup> His use of Twitter compares in many ways to former US President Donald Trump's.

Trump's use of Twitter as a means of communication during his campaign as a politician as well as his subsequent terms as president was unprecedented. Trump went completely outside the mold of a typical American President in many ways, however his communicatory tactics were perhaps the most revolutionary. Researchers from the University of Chicago argue, "That at least three things need to be considered when trying to explain his rise to power: his Message, the Mediatization of that message through Twitter, and the Address to his base." Most presidential or political communication is carefully crafted. The president normally has an entire media team dedicated to formulating correspondence, fact-checking, editing, and so on and so forth. This process helps ensure that communication from the office of the president is comprehensive and has been thoroughly vetted.

Trump's use of Twitter as a seemingly unfiltered personally representative form of communication was essentially antithetical to the normal communication practices of high level political figures. His Twitter account offered his supporters and by extension the rest of the web nearly constant unfiltered content. To many outside of Trump's political sphere and lexicon, his use of Twitter appears to be erratic and irrational, however it is exactly these aspects of his use that appealed to his supporter base.<sup>32</sup> His Twitter practices only helped fuel his image as a Washington outsider, and a revolutionary figure. Meanwhile politicians and media outlets

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<sup>31</sup> Oelsner, "Move over, Trump?"

<sup>32</sup> Ott, "The Age of Twitter."

scratched their collective heads at Trump's brash and unfiltered rhetoric. He used the confusion and anger to further bolster his support and discredit his opponents. A bot modeled on thousands of hours of Trump's speech and writing concentrated his rhetoric into three main ideas. "The bot, which is called DeepDrumpf, "uses an artificial intelligence algorithm based on Trump's language in hundreds of hours of debate transcripts" to generate Trump-like tweets. According to Hayes, Trump's debate rhetoric during the Republican primary displayed three prominent traits: it "use[d] simple language," it "defer[red] to trusted friends and colleagues," and it "constantly insult[ed] his opponents." This recipe for communication achieved exactly what Trump desired.<sup>33</sup>

A large proportion of Trump's base consists of people who share his prejudices. A common narrative throughout Trump's presidency was that his base consisted largely of poor, uneducated white people. 44% of the electorate in the 2016 presidential election consisted of white, non-college educated voters. Of that considerable percentage, 64% voted for Trump, compared to just 28% for Hillary Clinton. All told, 50% of Trump's base consisted of voters with no college education.<sup>34</sup> While a significant proportion of Trump's base did not progress past a high school education, many voters with no college education opposed him because of the prejudices he touted. What the data really speaks to is a mass amount of polarization. When examining the ideological consistency metric within the 2016 electorate, we see that 98% of conservatives voted for Trump, and 95% of Liberals voted for Clinton.<sup>35</sup> Trump exploited this polarization to rally a strong base, and continued to bolster this base by reinforcing his own biases, and aggressively attacking his opposition.

There are a number of parallels between the way Bukele and Trump use Twitter. Like Trump, it is evident that much, if not all, of the tweets on Bukele's Twitter are his own. They

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<sup>33</sup> Stolee and Caton, "Twitter, Trump, and the Base."

<sup>34</sup> NW, Washington, and Inquiries, "An Examination of the 2016 Electorate, Based on Validated Voters."

<sup>35</sup> NW, Washington, and Inquiries.

read very similarly to Trump tweets with their use of simple language and capital letters. Bukele, like Trump, employs these tactics to attack political opposition to reinforce support.



In the example above we see Bukele mention the support of the Trump administration, while also mocking a US politician attempting to question Bukele's handling of El Salvador's crackdown on crime. Bukele was accused of violating civil rights in a series of sweeping arrests that led to the incarceration of over 6,000 people. According to a New York Times article, many of these purported gang members were very old or had been inactive for many years. Police reportedly arrested swathes of young people under very little suspicion, breaking into homes and scooping people up off of the street. All of this is occurring in the wake of increased violence in El Salvador and repeated accusations that Bukele cut deals with organized crime leaders before the election to boost his political standing. It appears Bukele may be using the military to make

extrajudicial arrests to fight against allegations of corruption. His use of Twitter at this time is similar in many ways to Trump's use during similar political crises.



Bukele also uses his Twitter to defend his crypto initiatives. In the tweet above Bukele responds aggressively to a Telegraph article that was critical of his regime's decision making. Similar to Trump, Bukele is using his Twitter to rally the support of crypto and Bitcoin enthusiasts. Just as Trump played into his prejudices to rally supporters, Bukele is playing into the image and beliefs of the most vehement supporters of Cryptocurrency. The quote Bukele is choosing to react to in his tweet is directly related to one of the biggest fears and insecurities surrounding crypto technology. Decentralization is a major goal of cryptocurrency, the telegraph article referenced commented on Bitcoin's ability to hurt the supremacy of FIAT currencies, however the comment also indicated that this would also coincide with an increase in global

danger. Bukele, plays into the image of a young, hip bitcoin enthusiast with his use of slang (WTF?!), but he also panders to the libertarian insecurities of enthusiasts simultaneously.

Bukele offers his shock and surprise at the article's mention of a loss of control concerning the continued use of Bitcoin. This is an incredibly pointed use of social media. Crypto libertarians will of course be upset to see major media organizations being critical of crypto, especially when it concerns surveillance and government control. Many Bitcoin supporters knowingly and unknowingly fall into the crypto anarchist ideological framework. They believe staunchly in the freedoms and protections provided by the encryption of the internet, and any attempt by organizations of influence to penetrate that is seen as a threat.<sup>36</sup>

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<sup>36</sup> "Crypto Anarchy and Virtual Communities."



## Social Impact of Cryptocurrency in El Salvador

One of the constant themes of Bukele's decision to make Bitcoin the national currency of El Salvador is its economic impact on a global scale, and on El Salvador's national economy. Major media outlets in particular tend to focus on trends that have a broad reaching impact in regards to El Salvador. Bukele's decision making is often assessed according to very western views of economic success. The focus is squarely on Bukele's international economic influence, including the disruptive power of his proposed Bitcoin bond. In the midst of this great struggle between Bukele and the global economic powers are the Salvadoran people. They currently reside in a sort of administrative limbo. Cryptocurrency policies are being put into place across El Salvador, yet consistent widespread adoption and connectivity has yet to be achieved. The lack of semblance to the current economic structure will only continue to put pressure on working class Salvadorans, and increase stagnation at the local economy level. What further complicates this relationship is that Bukele heavily utilizes western ideals in his image as well as his economic policy. These competing perspectives create conflict and tension, but most importantly they completely ignore the perspectives of El Salvadoran people. 68% of Salvadorans participate in the informal economy where many of Bukele's policies will have little impact or serve to complicate existing cash-based practices.<sup>37</sup> Additionally, 71% of the country remains unbanked, meaning only about 30% or less of the population has the potential to have crypto accessibility.<sup>38</sup> Even then accessibility does not guarantee economic benefit or prosperity, realistically only wealthy Salvadorans and immigrants will be able to truly benefit from Bitcoin.

El Salvador's domestic economy is driven heavily by the service industry. Over 50% of Salvadorans participating in the labor force work in the service industry. A large proportion of

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<sup>37</sup> "Share of Informal Employment in El Salvador | Statista."

<sup>38</sup> "Bank Account Ownership Rate El Salvador, by Type."

service industry jobs exist outside of nationalized or privatized industry sectors. Salvadorans that work outside of the government or for large corporations are dependent heavily on cash-based business.<sup>39</sup> Bukele's decision to change the national currency to Bitcoin immediately complicates these industries. Only 50% of El Salvadorans have access to the internet, and the telecommunications infrastructure has struggled in recent years. It will be an incredibly difficult and long transition process to successfully switch national currency in El Salvador. It will ultimately require a rapid amount of modernization and upgrades to infrastructure, specifically in terms of internet access and mobile banking accessibility. The question then arises: What sort of impact will rapid structural change have on El Salvador's population? For one, the service industry will undergo massive changes. It is likely that many traditional service roles will be lost or replaced by conglomeratization. The struggle is already evident in the adoption of the Chivo Wallet, and the lack of service and attention paid to purported fraud and bugs.<sup>40</sup> It is entirely possible that a secondary market dealing strictly in US Dollars (USD) remains, which could continue to provide stable income to Salvadorans. However the legitimacy and stability of this market will likely come under fire due to competition from Bitcoin. It is unlikely that nationalized serviced jobs such as those in hospitals and public schools will allow employees to be compensated in USD, especially if the government's aim is full domestic Bitcoin adoption. This could result in further economic mobility difficulties for working class Salvadorans and increased alienation from those immersed in the Bitcoin economy, without the establishment of a stable secondary service market.

Unfortunately for the people of El Salvador they are trapped in a battle of two titanic forces of neo-liberalism. No matter who wins the ensuing conflict it is likely the outcome will

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<sup>39</sup> Colantuoni, "The Service Sector in El Salvador Dominates the Country's Economy."

<sup>40</sup> "An Economic History Of El Salvador's Adoption Of Bitcoin."

not be explicitly positive for everyday citizens. Major economic agents of international influence such as the IMF and the World Bank are ultimately actors of neoliberal ideology. Their aim is to protect neoliberal interests by supporting existing economic power structures, protecting free markets, and producing and funding research and development. Ultimately, their goal is to maintain control and influence over markets by influencing policy.<sup>41</sup> While Bitcoin intrinsically supports increased economic freedom, it exists outside of the direct control of neoliberal institutions. This makes it a threat and thus explains why the IMF and the World Bank are at odds with Bukele and El Salvador.<sup>42</sup> No matter who gets their way things largely stay the same for the people of El Salvador. Bukele's success perhaps offers the opportunity for trickle down economic benefit from the adoption of Bitcoin, however Salvadorans may be more inclined to maintain the established informal economy governed by fiat currency.

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<sup>41</sup> Babb and Kentikelenis, "International Financial Institutions as Agents of Neoliberalism."

<sup>42</sup> "El Salvador and the IMF."

## Conclusion

As with many innovations throughout history, people will initially struggle to adopt cryptocurrency amongst various competing power structures. Our current global society is influenced heavily by free market capitalism. While Bitcoin was invented to help break out of the centralized financial structure, much of its implementation is being used to reinforce said structure. El Salvador is a prime example of this exact phenomenon in action. Bitcoin was established to be outside of the control of centralized financial institutions like banks, federal reserves, or the IMF, yet Bukele made it the national currency of El Salvador. This is in direct opposition to the neoliberal ideology behind crypto. Bukele is attempting to amass some sort of centralized control over a currency designed to be uncontrollable.

Ultimately I believe this decision will be both prosperous and disastrous for El Salvador. For the wealthy and powerful that currently reside in El Salvador, they stand to gain massively from the influx of crypto wealth that is bound to flow in. The outside investors who take advantage of crypto laws as well as El Salvador's future "Bitcoin City" will also see substantial financial gain. The majority of Salvadorans will see very little direct benefit from Bukele's policies. This is of course contingent on the success of the Bitcoin City proposed by President Bukele. There is a small chance that the tourism industry see's a permanent boom, which would likely result in positive economic outcomes for working and middle class Salvadorans. However, this is dependent on a number of factors including the future success and adoption of Bitcoin, immigration into El Salvador, and the completion of construction on Bitcoin City. It is highly unlikely that all the factors necessary to improve the economic standing of everyday Salvadorans come to fruition. For the small minority of merchants and small business owners that have access

consistently to crypto technology, the change to Bitcoin will mean that their lives will become less financially stable, due to the current volatility of cryptocurrency markets.

While there is always potential for Bitcoin to rise dramatically in value, due to its volatile nature it is equally as likely to be exposed to massive downswings, which we have already seen take place. The volatility of crypto and the small amount of capital relatively available to the middle class means Bukele's initiatives will most likely have a negative impact. It's even worse for those in El Salvador's lowest social and economic classes. The majority of these people work in informal sectors where cash is absolutely the dominant form of currency. These people will see essentially zero benefit from Bitcoin, besides the odd community project like public bathrooms.

If anything the financial sectors these people operate in will begin to shrink due to the shift in currency. The influx of foreign investment and immigration will probably contribute to the loss of jobs in service industries. The structures of capitalism that crypto will bring to El Salvador will only serve to worsen relations between the Salvadoran government and its people. Bukele will make out like a bandit in the end, with riches beyond his wildest dreams, while the poor of El Salvador will only grow poorer, the gap between them only growing wider.

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## Key Terms:

- Blockchain: A digital ledger that records transactions on a widespread decentralized network in the form of blocks
- Cryptocurrency: Digital/virtual currency encrypted using methods of cryptography. Programmed to withstand counterfeiting and repeat spending.
- Decentralization: Power in the hands of multiple entities instead of an individual or singular collective.
- Fiat Currency: Currency not pegged to a particular commodity (ie. gold, silver, oil). Typically issued by governments.