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Financial Imperialism – The Case of Venezuela

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Global Research, February 28, 2019

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Region: Latin America & Caribbean, USA
Theme: Global Economy, History

Invasion of Venezuela by US and its proxies is just around the corner! This past week vice-president Pence flew to Colombia once again—for the fifth time in recent weeks—to provide final instructions to US local forces and proxy allies there for the next step in the US regime change plan.

Evidence that the 'green light' for regime change and invasion is now flashing are supportive public statement by former president, **Barack Obama**, and several high level US Democratic party politicians and candidates, directly attacking the Maduro regime. They are signaling Democrat Party support for invasion and regime change. Events will now accelerate—just in time perhaps to coincide with the release of Mueller Report on Trump.

Behind the scenes it is clear, as it has been for months, that US Neocons are once again back in charge of US foreign policy, driving the US toward yet another war and attempt at regime change of a foreign government.

US Strategy in Brief

The US Neocon-led strategy is increasingly clear: establish a 'beach-head' on the Colombian-Venezuelan (and Venezuelan-Brazilian) border under the guise of providing humanitarian aid. Use the aid to get Venezuelans on the border to welcome the US proxy forces to cross over. Set up political and military structures thereafter just inside the Venezuelan borders with Colombia and Brazil, from which to launch further similar efforts deeper into Venezuela. Repeat this province by province, step by step, penetrating Venezuela space until enough local units of the Venezuelan military change sides and convince one or more of the Venezuelan military hierarchy to join them. Establish a dual state and government within and along the border of the Venezuelan state this way. A breakaway State and dual power within the country. Make it appear, by manipulating the media, that the Venezuelan people are rising up against the Maduro government, when in fact it is US proxy forces invading and using opportunist local politicians, military, and others in the 'conquered' zones, as the media covers for their invasion.

The main ideological justification being used for the invasion and regime change is that the Maduro government has grossly mismanaged the Venezuelan economy and driven its people into poverty. With Democrats now joining Trump and Republicans in support of invasion, the liberal mainstream US media, as well as the rightwing alternative media, are both pushing the same line, to blunt US opposition to invasion and yet another war before the final military assault is launched. Somehow the democratic elections less than a year ago, which returned the Maduro government to power, did not represent the 'will of the people'. Explanations how they did not are thin and unconvincing, moreover. Nor is any explanation given how US policies and actions have played the central role in destroying

Venezuela's currency and economy. And the financial measures used to destabilize the economy are especially opaque.

Financial Imperialism: The Case of Venezuela

Venezuela today is a classic case how US imperialism in the 21st century employs financial measures to crush a state and country that dares to break away from the US global economic empire and pursue an independent course outside the US empire's web of entangling economic and financial relations.

Here's how US 'financial imperialism' has worked, and continues to work, with the intent of assisting regime change in the case of Venezuela.

In a world where US Capitalism is the dominant hegemon the US currency—the dollar—is the centerpiece of the US global economic empire. The dollar serves as the global trading currency as well as the global banking reserves currency. More than 85% of all global trade (export and import) is done in dollars. Certain commodities, like global oil and oil futures contracts, are traded virtually only in dollars. Recently more countries have begun to peg their own currency to the dollar, allowing it to move in tandem with the dollar. Some have even eliminated their currency altogether and now use only the US dollar as their domestic currency. Increasingly as well, more countries are issuing their domestic bonds in dollars (i.e. dollar denominated bonds). And their central banks follow the US central bank, the Federal Reserve's, policy as it raises or lowers US interest rates that in turn cause the US dollar to rise and fall. They do so even if rising US interest rates mean rising rates in their own economies that precipitate recessions and mass unemployment. These are all examples of the growing financial integration with the US Imperial State and economy.

But even those economies that maintain their own currency are at the mercy of the US dollar. Since the dollar is the global trading and reserves currency, whenever the dollar rises in value due to US monetary policy changes, or US inflationary pressures, or just changes in supply or demand for the dollar, the currencies of other countries fall in value. As the dollar rises in value, other currencies fall. That's how global exchange rates work in the 21st century global US empire where the dollar is the trading-reserves currency. Other currencies—the British pound, Euro, and even less so the Japanese Yen or China Yuan—are still largely insignificant as reserves or trading currencies. And it appears very unlikely they will soon replace the dollar—one of the key pillars of the US empire.

The US has the power to engineer a collapse in a country's currency. A collapse in its currency means the price of imported goods rises rapidly, especially those goods it can only be obtained by imports—i.e. medicines, critical food commodities, intermediate business goods necessary for domestic manufacturing, etc. Accelerating import inflation in turn leads to domestic businesses cutting back production due to lack of affordable resources, commodities, or parts. Mass layoffs follow production cutbacks. Rising inflation brought on by currency collapse is thus accompanied by rising unemployment. Wage income and consumption in turn collapse and thereafter the economy in general.

Widespread shortages of key imports, inflation, and domestic production decline and unemployment brought on by the shortages and inflation simultaneously lead to social discontent and loss of support for the government. Opposition groups and parties proclaim these problems are due to the mismanagement of the economy by the government, or corruption by its leaders, or just socialist policies in general. But in fact the economic crisis—i.e. shortages, inflation, production, unemployment—is traceable directly to the root cause of the collapse of the currency engineered by US imperialist policies intent on crashing the economy as a prelude to regime change and economic reintegration to the US global economic empire.

There are many ways the US can, and does, cause a collapse of a country's currency. One set of measures are designed to cause a severe shortage of dollars in the target country's economy.

A shortage of dollars drives up the value of the US dollar in the target economy which, in turn, drives down the value of the country's own currency. The US has been engineering a collapse of Venezuela's currency, the Bolivar, now for years—first by causing dollars in Venezuela to flow out of the country and, secondly, by measures preventing Venezuela from obtaining dollars from abroad.

US policy over the last several years at least has been to force US companies doing business in Venezuela to repatriate their dollars back to the US or else divert them elsewhere globally among subsidiaries. Or just to leave Venezuela and take their dollars with them. US policy has also been to publicize and promote wealthier Venezuelans with dollars to take them out of the country and invest them in Colombia, where the US has arranged an online investment firm with the assistance of its Colombian government ally. Rich Venezuelans have been encouraged as well to send their money to Miami banks. And to move there in large numbers, which they have, taking their dollars with them or dumping their Bolivars in exchange for dollars. The outflow of dollars from Venezuela has raised the value of dollars that remain in Venezuela on the black market there, thereby helping to depress the value of the Bolivar in Venezuela even further.

These measures pale, however, to US imperial efforts to prevent Venezuela from obtaining dollars in global markets in an effort to try to offset the outflow of dollars from the economy.

For example, the US has taken action to prevent US and global banks from lending dollars to Venezuela, or from participating in underwriting and insuring Venezuelan bond issues which would also raise dollars for Venezuela if allowed. Bank loans and bond funding thus dry up, depriving the government of alternative sources of dollars. More dollar shortage; more Bolivar domestic currency collapse—i.e. more expensive imports, more inflation, more shortages, declining production, rising unemployment….more discontent.

The main effort by which the US is attempting to deprive Venezuela of dollars is to impose sanctions on other countries that try to buy Venezuelan oil. Oil sales are the number one source of the country's dollar acquisitions, since all oil trade is done in dollars and Venezuela depends on 95% of all its government revenues from selling its oil. The US imposes sanctions on would be buyers and thus cuts off access to dollars, as it simultaneously through other policies works to encourage dollar flight out of Venezuela and cut off bank loans and bond issuance by the country. And if the prior bonds and loans were 'dollar denominated', then the lack of dollars to pay the interest and principal coming due leads directly to defaults and in turn to business collapse and even more unemployment.

Venezuela has turned to selling its oil to China and Russia and a few other countries. It has been forced to resort to paying its interest and principal on past loans from these governments with shipments of oil instead of payments in dollars. As the US turns to sanctions as an economic ‘weapon’ to enforce its will on other countries, which it has been doing in recent years, more countries are become aware of the tactic and are taking countermeasures. They are dumping dollars (or reducing their purchases of dollars in world markets) and buying gold. China and Russia are leading this way, while experimenting with non-currency dependent trade.

Another recent move by the US to deny Venezuela dollars and collapse its currency has been to seize the Venezuelan oil distribution company, CITGO in the US. Its remittances back to Venezuela have been in dollars. By seizing CITGO, the US deprives the country of yet another source of dollars, with which Venezuela might otherwise have been able to purchase imports of food, medicines, and other economically critical goods. So Venezuelans in this case are clearly forced to forego these critical imports due to US policy—not due to economic mismanagement by its government. Moreover, adding insult to injury, the dollar funds from CITGO seized by the US are being delivered to the Venezuelan government’s opponents and its hand-picked ally of the US, Guido. The opposition now gets to finance its counter-revolution with the money formerly remitted to Venezuela. The counter-revolution is financed at the expense of critical goods and services that otherwise might have been made available to the Venezuelan people.

Seizure of the CITGO asset is not the only such example of dollar deprivation. Other assets in the form of inventories, investments, cash in US banks, etc. are also being impounded. And not just from the Venezuelan government. Individual Venezuelan companies and individual citizens have been having their assets in the US impounded as well. And the US is increasing its pressure on foreign governments to impound and seize assets as well—of the government, businesses, and citizens.

The impoundment and seizure has recently been extended as well to Venezuelan gold stocks held offshore in other countries, in direct violation of international law. Recently the US company and mega bank, Citigroup, has been forced to withhold Venezuelan gold in violation of its contracts with the country. The Bank of England has also been asked, and is complying, with the US demand to freeze Venezuelan gold deposited in the UK. And countries like Abu Dhabi, where gold is traded globally, have been asked to stop trading in Venezuelan gold. Gold is a substitute money for the US dollar. So preventing gold access to Venezuela is like preventing dollar access as well. With its gold, Venezuela could more easily buy dollars, or trade for goods directly, than with using Bolivars that are falling in value and sellers are less likely to take as payment.

Countries with economies whose currency is seriously declining in value are able to get a loan to stabilize its currency from the International Monetary Fund, the IMF. Recent examples are Argentina, Turkey, South Africa, and even Pakistan. But the IMF is an institution set up by the US in 1944. The US maintains with its close European allies a majority vote on IMF decisions. The IMF does nothing the US does not approve. Its mission is to lend to countries in need of stabilizing their currencies. The IMF, however, as an appendage of the US global empire, has refused to lend Venezuela anything to help stabilize its currency.

This is in contrast, for example, to the record loan of more than $50 billion recently provided to Argentina once that country put in its current business and US-friendly Macri government. (The record IMF loan, by the way, was so that Argentina could pay off debts owed to US and other speculators in the early 2000s. So Argentina saw little of that $50b. What the payoff did enable, however, was for Macri and other Argentinian bankers to go to New York to get new loans from US banks once it repaid the speculators, from which Macri and friends no doubt personally benefitted immensely).

As the Venezuelan currency collapses due to US arranged dollar shortages, Venezuela must print even more Bolivars to enable it to purchase what goods from abroad it might still be able to buy. A collapsed currency means the price of imported goods rises proportionately. So more Bolivars are needed to buy the goods that are continually rising in price. Printing more Bolivars adds to the supply of Bolivars in the economy which raises domestic price inflation even further. But the excess printing is in response to the currency collapse which is engineered by the dollar shortage and the falling exchange rate in the first place. The over supply of Bolivars is not due to mismanagement; it is due to the shortage of dollars and the desperate effort by the Venezuelan government to somehow pay for inflating import goods.

The falling price of crude oil in 2017-18 added further pressure on the Bolivar. The collapse of oil prices globally appears unrelated to US policy. But it wasn't. The oil Venezuela has been able to continue to sell, mostly to China or Russia, declined by 40% in price in 2018. The global oil deflation of 2018 thus generated less oil revenue for the country and thus fewer dollars.

But that too was due indirectly to US policy and economic conditions. The collapsing price of oil in 2018 is directly attributed to US shale oil producers raising their output by more than a million barrels a day, which increased the world oil supply and depressed world oil prices. The US then attempted to manipulate world oil output with Saudi Arabia but that exacerbated the over-production and deflation problem still further. Here's how: The US attempted to impose sanctions on Iranian oil in 2018. Saudi Arabia believed it would capture the customers that Iran would lose, and therefore it, Saudi Arabia, also raised its output of crude as US shale producers raised theirs. But Iran was able to continue to sell its oil, as US sanctions broke down. The result of the US shale overproduction plus Saudi overproduction was a 40% collapse in world oil prices in 2018 that further deprived Venezuela of much needed government revenue—apart from US sanctions on Venezuela oil sales.

US monetary policy in 2018 further exacerbated the currency crisis in Venezuela—as it did elsewhere in Latin America and emerging markets in general. In 2017-18 the US central bank launched a policy of raising interest rates. Since other world central banks respond to the US central bank, world rates began to rise as well. Rising US interest rates caused a rise in the US dollar, and as the dollar rose in 2017-18 emerging market currencies fell. They fell for Venezuela in part due to this effect, as well as due to other causes mentioned.

Falling currencies precipitate what is called 'capital flight' out of the country. Less money capital means less available for investment and thus lower production output and more unemployment. So currency collapse precipitates not only inflation but recession as well. To prevent the capital fight, emerging market economies raise their own domestic interest rates. This led to recession, for example, throughout Latin America in 2017-18. Capital flight out of Venezuela has been significant since 2016, as wealthy Venezuelans sent more of their dollars out of the country to Miami, thus exacerbating dollar shortages in Venezuela and further driving down the value of the Bolivar left behind.

US sanctions on other countries, banks, and companies offshore are designed not only to prevent Venezuela access to dollars and money capital offshore. Sanctions also target real goods trade, like oil and other key commodities. But there's another means by which the US shuts down the flow of real goods into and from a country, causing shortages of critical goods. It's the US controlled international payments exchange system, called SWIFT. This is where US banks arrange the exchange and transfer of payments for goods and services by converting from one currency to the other and transferring the funds from one bank to another across countries. The US has been preventing Venezuela from normally using the SWIFT system. So even if another country is willing to buy Venezuela goods, including oil, and exchange Bolivars for its own currency, it is prevented from doing so by the US bank-controlled SWIFT system.

Summing Up

Financial imperialism has been waged against Venezuela for decades, but the attack on Venezuela employing financial measures has recently intensified as the US neocons and imperialists have accelerated their plans to launch a more direct attack by political means, including military, to force regime change in Venezuela. At the center of the on-going, and now intensifying, financial warfare against the country by the US are measures designed to destroy Venezuela's currency.

Imperialism is often thought of as military conquest and colonialism. That's 19th century British and European imperialism. But the American Empire in the 21st century does not need colonialism. It has a more efficient system for forcing the integration of other economies and for extracting value and wealth from the rest of the world. The US empire is increasingly knitted together in the 21st century by a deep web of financial relationships that afford it multiple levers of economic power it can pull if and when it desires. And when those economic and financial levers prove insufficient to overthrow domestic forces and governments that remain intent on pursuing a more independent path outside the Empire's economic and political relations, then the breakaway State is attacked more directly once the economy is sufficiently wrecked. Such is the case of Venezuela today. Financial imperialism has paved the way for more direct political and military action.

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