Venezuela as the Pivot for New Internationalism?

By Prof Michael Hudson and The Saker
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Introduction

There is a great deal of controversy about the true shape of the Venezuelan economy and whether Hugo Chavez's and Nicholas Maduro's reform and policies were crucial for the people of Venezuela or whether they were completely misguided and precipitated the current crises. Anybody and everybody seems to have very strong held views about this. But I don't simply because I lack the expertise to have any such opinions. So I decided to ask one of the most respected independent economists out there, Michael Hudson, for whom I have immense respect and whose analyses (including those he co-authored with Paul Craig Roberts) seem to be the most credible and honest ones you can find. In fact, Paul Craig Roberts considers Hudson the "best economist in the world"!

I am deeply grateful to Michael for his replies which, I hope, will contribute to a honest and objective understanding of what really is taking place in Venezuela.

The Saker

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The Saker: Could you summarize the state of Venezuela's economy when Chavez came to power?

Michael Hudson: Venezuela was an oil monoculture. Its export revenue was spent largely on importing food and other necessities that it could have produced at home. Its trade was largely with the United States. So despite its oil wealth, it ran up foreign debt.

From the outset, U.S. oil companies have feared that Venezuela might someday use its oil revenues to benefit its overall population instead of letting the U.S. oil industry and its local comprador aristocracy siphon off its wealth. So the oil industry – backed by U.S. diplomacy – held Venezuela hostage in two ways.

First of all, oil refineries were not built in Venezuela, but in Trinidad and in the southern U.S. Gulf Coast states. This enabled U.S. oil companies – or the U.S. Government – to leave Venezuela without a means of "going it alone" and pursuing an independent policy with its oil, as it needed to have this oil refined. It doesn't help to have oil reserves if you are unable to get this oil refined so as to be usable.

Second, Venezuela's central bankers were persuaded to pledge their oil reserves and all assets of the state oil sector (including Citgo) as collateral for its foreign debt. This meant that if Venezuela defaulted (or was forced into default by U.S. banks refusing to make timely payment on its foreign debt), bondholders and U.S. oil majors would be in a legal position to take possession of Venezuelan oil assets.

These pro-U.S. policies made Venezuela a typically polarized Latin American oligarchy. Despite being nominally rich in oil revenue, its wealth was concentrated in the hands of a pro-U.S. oligarchy that let its domestic development be steered by the World Bank and IMF. The indigenous population, especially its rural racial minority as well as the urban underclass, was excluded from sharing in the country's oil wealth. The oligarchy's arrogant refusal to share the wealth, or even to make Venezuela self-sufficient in essentials, made the election of Hugo Chavez a natural outcome.

TS: Could you outline the various reforms and changes introduced by Hugo Chavez? What did he do right, and what did he do wrong?

MH: Chavez sought to restore a mixed economy to Venezuela, using its government revenue – mainly from oil, of course – to develop infrastructure and domestic spending on health care, education, employment to raise living standards and productivity for his electoral constituency.

What he was unable to do was to clean up the embezzlement and built-in rake-off of income from the oil sector. And he was unable to stem the capital flight of the oligarchy, taking its wealth and moving it abroad – while running away themselves.

This was not "wrong". It merely takes a long time to change an economy's disruption – while the U.S. is using sanctions and "dirty tricks" to stop that process.

TS: What are, in your opinion, the causes of the current economic crisis in Venezuela – is it primarily due to mistakes by Chavez and Maduro or is the main cause US sabotage, subversion and sanctions?

MH: There is no way that's Chavez and Maduro could have pursued a pro-Venezuelan policy aimed at achieving economic independence without inciting fury, subversion and sanctions from the United States. American foreign policy remains as focused on oil as it was when it invaded Iraq under Dick Cheney's regime. U.S. policy is to treat Venezuela as an extension of the U.S. economy, running a trade surplus in oil to spend in the United States or transfer its savings to U.S. banks.

By imposing sanctions that prevent Venezuela from gaining access to its U.S. bank deposits and the assets of its state-owned Citco, the United States is making it impossible for Venezuela to pay its foreign debt. This is forcing it into default, which U.S. diplomats hope to use as an excuse to foreclose on Venezuela's oil resources and seize its foreign assets much as Paul Singer's hedge fund sought to do with Argentina's foreign assets.

Just as U.S. policy under Kissinger was to make Chile's "economy scream," so the U.S. is following the same path against Venezuela. It is using that country as a "demonstration effect" to warn other countries not to act in their self-interest in any way that prevents their economic surplus from being siphoned off by U.S. investors.

TS: What in your opinion should Maduro do next (assuming he stays in power and the USA does not overthrow him) to rescue the Venezuelan economy?

MH: I cannot think of anything that President Maduro can do that he is not doing. At best, he can seek foreign support – and demonstrate to the world the need for an alternative international financial and economic system.

He already has begun to do this by trying to withdraw Venezuela's gold from the Bank of England and Federal Reserve. This is turning into "asymmetrical warfare," threatening what to de-sanctify the dollar standard in international finance. The refusal of England and the United States to grant an elected government control of its foreign assets demonstrates to the entire world that U.S. diplomats and courts alone can and will control foreign countries as an extension of U.S. nationalism.

The price of the U.S. economic attack on Venezuela is thus to fracture the global monetary system. Maduro's defensive move is showing other countries the need to protect themselves from becoming "another Venezuela" by finding a new safe haven and paying agent for their gold, foreign exchange reserves and foreign debt financing, away from the dollar, sterling and euro areas.

The only way that Maduro can fight successfully is on the institutional level, upping the ante to move "outside the box." His plan – and of course it is a longer-term plan – is to help catalyze a new international economic order independent of the U.S. dollar standard. It will work in the short run only if the United States believes that it can emerge from this fight as an honest financial broker, honest banking system and supporter of democratically elected regimes. The Trump administration is destroying illusion more thoroughly than any anti-imperialist critic or economic rival could do!

Over the longer run, Maduro also must develop Venezuelan agriculture, along much the same lines that the United States protected and developed its agriculture under the New Deal legislation of the 1930s – rural extension services, rural credit, seed advice, state marketing organizations for crop purchase and supply of mechanization, and the same kind of price supports that the United States has long used to subsidize domestic farm investment to increase productivity.

TS: What about the plan to introduce an oil-based crypto currency? Will that be an effective alternative to the dying Venezuelan Bolivar?

MH: Only a national government can issue a currency. A "crypto" currency tied to the price of oil would become a hedging vehicle, prone to manipulation and price swings by forward sellers and buyers. A national currency must be based on the ability to tax, and Venezuela's main tax source is oil revenue, which is being blocked from the United States. So Venezuela's position is like that of the German mark coming out of its hyperinflation of the early 1920s. The only solution involves balance-of-payments support. It looks like the only such support will come from outside the dollar sphere.

The solution to any hyperinflation must be negotiated diplomatically and be supported by other governments. My history of international trade and financial theory, Trade, Development and Foreign Debt, describes the German reparations problem and how its hyperinflation was solved by the Rentenmark.

Venezuela's economic-rent tax would fall on oil, and luxury real estate sites, as well as monopoly prices, and on high incomes (mainly financial and monopoly income). This requires a logic to frame such tax and monetary policy. I have tried to explain how to achieve monetary and hence political independence for the past half-century. China is applying such policy most effectively. It is able to do so because it is a large and self-sufficient economy in essentials, running a large enough export surplus to pay for its food imports. Venezuela is in no such position. That is why it is looking to China for support at this time.

TS: How much assistance do China, Russia and Iran provide and how much can they do to help? Do you think that these three countries together can help counter-act US sabotage, subversion and sanctions?

MH: None of these countries have a current capacity to refine Venezuelan oil. This makes it difficult for them to take payment in Venezuelan oil. Only a long-term supply contract (paid for in advance) would be workable. And even in that case, what would China and Russia do if the United States simply grabbed their property in Venezuela, or refused to let Russia's oil company take possession of Citco? In that case, the only response would be to seize U.S. investments in their own country as compensation.

At least China and Russia can provide an alternative bank clearing mechanism to SWIFT, so that Venezuela can bypass the U.S. financial system and keep its assets from being grabbed at will by U.S. authorities or bondholders. And of course, they can provide safe-keeping for however much of Venezuela's gold it can get back from New York and London.

Looking ahead, therefore, China, Russia, Iran and other countries need to set up a new international court to adjudicate the coming diplomatic crisis and its financial and military consequences. Such a court – and its associated international bank as an alternative to the U.S.-controlled IMF and World Bank – needs a clear ideology to frame a set of principles of nationhood and international rights with power to implement and enforce its judgments.

This would confront U.S. financial strategists with a choice: if they continue to treat the IMF, World Bank, ITO and NATO as extensions of increasingly aggressive U.S. foreign policy, they will risk isolating the United States. Europe will have to choose whether to remain a U.S.

economic and military satellite, or to throw in its lot with Eurasia.

However, Daniel Yergin reports in the Wall Street Journal (Feb. 7) that China is trying to hedge its bets by opening a back-door negotiation with Guaido's group, apparently to get the same deal that it has negotiated with Maduro's government. But any such deal seems unlikely to be honored in practice, given U.S. animosity toward China and Guaido's total reliance on U.S. covert support.

TS: Venezuela kept a lot of its gold in the UK and money in the USA. How could Chavez and Maduro trust these countries or did they not have another choice? Are there viable alternatives to New York and London or are they still the "only game in town" for the world's central banks?

MH: There was never real trust in the Bank of England or Federal Reserve, but it seemed unthinkable that they would refuse to permit an official depositor from withdrawing its own gold. The usual motto is "Trust but verify." But the unwillingness (or inability) of the Bank of England to verify means that the formerly unthinkable has now arrived: Have these central banks sold this gold forward in the post-London Gold Pool and its successor commodity markets in their attempt to keep down the price so as to maintain the appearance of a solvent U.S. dollar standard?

Paul Craig Roberts has described how this system works. There are forward markets for currencies, stocks and bonds. The Federal Reserve can offer to buy a stock in three months at, say, 10% over the current price. Speculators will by the stock, bidding up the price, so as to take advantage of "the market's" promise to buy the stock. So by the time three months have passed, the price will have risen. That is largely how the U.S. "Plunge Protection Team" has supported the U.S. stock market.

The system works in reverse to hold down gold prices. The central banks holding gold can get together and offer to sell gold at a low price in three months. "The market" will realize that with low-priced gold being sold, there's no point in buying more gold and bidding its price up. So the forward-settlement market shapes today's market.

The question is, have gold buyers (such as the Russian and Chinese government) bought so much gold that the U.S. Fed and the Bank of England have actually had to "make good" on their forward sales, and steadily depleted their gold? In this case, they would have been "living for the moment," keeping down gold prices for as long as they could, knowing that once the world returns to the pre-1971 gold-exchange standard for intergovernmental balance-of-payments deficits, the U.S. will run out of gold and be unable to maintain its overseas military spending (not to mention its trade deficit and foreign disinvestment in the U.S. stock and bond markets). My book on Super-Imperialism explains why running out of gold forced the Vietnam War to an end. The same logic would apply today to America's vast network of military bases throughout the world.

Refusal of England and the U.S. to pay Venezuela means that other countries means that foreign official gold reserves can be held hostage to U.S. foreign policy, and even to judgments by U.S. courts to award this gold to foreign creditors or to whoever might bring a lawsuit under U.S. law against these countries.

This hostage-taking now makes it urgent for other countries to develop a viable alternative, especially as the world de-dedollarizes and a gold-exchange standard remains the only way of constraining the military-induced balance of payments deficit of the United States or any other country mounting a military attack. A military empire is very expensive – and gold is a “peaceful” constraint on military-induced payments deficits. (I spell out the details in my Super Imperialism: The Economic Strategy of American Empire (1972), updated in German as Finanzimperium (2017).

The U.S. has overplayed its hand in destroying the foundation of the dollar-centered global financial order. That order has enabled the United States to be “the exceptional nation” able to run balance-of-payments deficits and foreign debt that it has no intention (or ability) to pay, claiming that the dollars thrown off by its foreign military spending “supply” other countries with their central bank reserves (held in the form of loans to the U.S. Treasury – Treasury bonds and bills – to finance the U.S. budget deficit and its military spending, as well as the largely military U.S. balance-of-payments deficit.

Given the fact that the EU is acting as a branch of NATO and the U.S. banking system, that alternative would have to be associated with the Shanghai Cooperation Organization, and the gold would have to be kept in Russia and/or China.

TS: What can other Latin American countries such as Bolivia, Nicaragua, Cuba and, maybe, Uruguay and Mexico do to help Venezuela?

MH: The best thing neighboring Latin American countries can do is to join in creating a vehicle to promote de-dollarization and, with it, an international institution to oversee the writedown of debts that are beyond the ability of countries to pay without imposing austerity and thereby destroying their economies.

An alternative also is needed to the World Bank that would make loans in domestic currency, above all to subsidize investment in domestic food production so as to protect the economy against foreign food-sanctions – the equivalent of a military siege to force surrender by imposing famine conditions. This World Bank for Economic Acceleration would put the development of self-reliance for its members first, instead of promoting export competition while loading borrowers down with foreign debt that would make them prone to the kind of financial blackmail that Venezuela is experiencing.

Being a Roman Catholic country, Venezuela might ask for papal support for a debt write-down and an international institution to oversee the ability to pay by debtor countries without imposing austerity, emigration, depopulation and forced privatization of the public domain.

Two international principles are needed. First, no country should be obliged to pay foreign debt in a currency (such as the dollar or its satellites) whose banking system acts to prevents payment.

Second, no country should be obliged to pay foreign debt at the price of losing its domestic autonomy as a state: the right to determine its own foreign policy, to tax and to create its own money, and to be free of having to privatize its public assets to pay foreign creditors. Any such debt is a “bad loan” reflecting the creditor’s own irresponsibility or, even worse, pernicious asset grab in a foreclosure that was the whole point of the loan.

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