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Venezuela's High Inflation Is the Country's Achilles' Heel – Especially in Times of Crisis

By Adam Garrie
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The favourable exchange rate between the US dollar and the highly inflated Venezuelan bolívar is a key element in respect of understanding why Washington has decided to behave so brazenly in instigating a 'Twitter Coup' against Caracas. While the United States Federal Reserve has no qualms about printing money in order to readily monetise its own debt and otherwise help feed a ballooning federal government and associated military-industrial complex, when it comes to objectively defined hyperinflation, Venezuela's is the worst in the world.

At the end of 2018, Venezuela's inflation rate was 1,698,488%, making it the worst in the world by an exponential factor. By contrast, the country with the second highest inflation rate in the world, South Sudan stood at 117%. This means that in dollar-for-dollar terms, it is theoretically easier to "buy off" a Venezuelan official than any other in the world, because just about any easily convertible currency or asset in the world will go a long way in inflation rife Venezuela. Of course in reality, it appears that the vast majority of Venezuelan officials are loyal to their constitution and their constitutional defined elected President Nicolas Maduro. That being said, one does have to allow for human weakness when analysing such a situation and at the end of the day, shouting "solidarity" is free, but the temptation of a proverbial fist full of dollars (or frankly any other currency) is clearly a seductive prospect for *anyone* in Venezuela.

Against this background, it appears that the first Venezuelan domino to fall has been an erstwhile little known military attache at the Venezuelan Embassy in Washington called Colonel Jose Luis Silva (image on the right). Silva has reportedly defected from President Maduro's government and has joined the United States in recognising self-appointed "President" Juan Guaido as Venezuela's head of sate. Whilst there is not yet any evidence that any money or assets exchanged hands between US officials and Colonel Silva, it would not take one with a wild imagination to picture such a thing taking place, not least since Silva was already working in Washington D.C.

The legitimate Venezuelan government did not waste time in condemning Silva. According to the Defence Ministry in Caracas:

> “To surrender to international interests is an act of treason and cowardice towards the homeland inherited from our liberator Simon Bolivar, so we reject the statements of Col. Jose Luis Silva, who had served as military attache to the United States”.

While this is clearly a robust statement, the fact remains that the current political crisis is not going to make Venezuela’s inflation woes any better and thus, the prospect of other top Venezuelan officials defecting to the pro-US self-proclaimed leader is not a conspiracy theory, but a very likely possibility over the course of the coming days and week.

In this respect, it must be said that the problems facing Venezuela make a strong argument for sound money. In fact, Venezuela’s President himself has realised the importance of sound money and looked to create a new crypto-currency known as El Petro. Launched last year, El Petro is pegged to the value of Venezuela’s chief asset, oil. Beyond this, Venezuela’s natural gold resources also meant that Venezuela could have and perhaps should have gone on to a gold standard. Sadly though for President Maduro, foreign powers have conspired to make Venezuela’s history of unsound monetary policy even worse.

First of all, the US government banned its citizens from purchasing El Petro and threatened sanctions upon non-US entities and civilians who traded in the digital but nevertheless sound currency. Secondly, as over $1.2 billion worth of Venezuelan gold is in the Bank of England, the gold has effectively been stolen from Caracas as the authorities in the The City of London have refused to allow Venezuela to withdraw its own gold from its own deposit at the UK’s central bank.

Thus, while Venezuelan leaders can and should be blamed for allowing hyperinflation to spiral out of control during years of low global oil prices, when at last Caracas realised that gold and an oil based currency are the best means of trying to get out of the crises, Venezuela should have been applauded rather than punished for making a decision to at least try and pivot towards a sound monetary foundation.

Yet instead of allowing markets rather than geopolitical mercantilism to determine policy, the US has predictably moved to strangle Venezuelan attempts to free up its own assets in order to develop something like a duel track currency model where the existing de-facto worthless bolívar might co-exist next to El Petro as well as some sort of gold backed currency.

This is of course not the first time that monetary policy among resource rich nations has led to the US taking action to undermine a UN recognised legitimate government. Prior to the 2003 war on Iraq, President Saddam Hussein dumped the petro-dollar and began trading Iraq’s oil in the then new Euro currency. Likewise, prior to the 2011 NATO invasion of Libya, the country’s revolutionary leader Muammar Gaddafi sought to put all of Africa on a gold standard as he prepared to finalise plans for a gold backed African dinar.

It should therefore not be a surprise that months after the launch of El Petro and weeks after Venezuela sought to withdraw some of its gold from the Bank of England – Washington pounced. The fact of the matter is that foreign competitors remaining dollar poor is a crucial foreign policy goal for a superpower whose own currency remains a global reserve currency, in spite of being backed by nothing by the international belief that the US will eventually pay back its trillions worth of debt. In this sense, because the Federal Reserve is the king of 'voodoo monetary policy', the US is best placed to insure its own wealth by punishing foreign nations that might otherwise develop a more sound monetary policy than that of a United States whose own currency has continually lost value since departing from the gold standard.

By contrast, if nations like Libya or Venezuela successfully adopted sound money principles, sanctions would be far less easy to enforce, whilst the domestic economies in question could thrive in a relatively inflation free environment and one in which interest rates could remain low without feeding inflation.

In this sense, while inflation had long been a problem for individual Venezuelans, now the problem is being exacerbated by the temptation that many officials will clearly have to defect to a self-proclaimed leader that is backed by the US government – which means he is also backed by a US dollar that remains stronger than Venezuela's national currency.

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Articles by: Adam Garrie