Tunnels, Bunkers, and Escape Hatches

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"Being all equal and independent, no one ought to harm another in his life, health, liberty, or possessions. . . ."

Life, health, liberty, and possessions: the natural, inalienable rights of mankind. So wrote John Locke in his Second Treatise of Government. Locke posited in this same work that government exists to serve the best interest of its people, protecting those natural rights. The legitimacy of government rests in the consent of the governed.

Possessions, or property, have been reiterated as a human right over the course of the centuries since Locke first wrote—enshrined in everything from the United States' Declaration of Independence to the United Nations' Universal Declaration on Human Rights. Nevertheless, executives, judiciaries, legislative bodies, and central banks around the world have continually broken their social contract on this front. They have not only failed to defend the natural rights of possessions and property, but have often actively harmed individuals' ability to hold value and to freely transfer and exchange assets. Access to a free, open, and functional financial system is a fundamental human right, albeit one that is continuously violated by states and policymakers globally.

The threats posed to this right by governments are many, varied, and often interconnected. Inflation, confiscation, capital controls, price controls, rationing, bank withdrawal limits, cash shortages, and all manner of similarly restrictive policies are in this category of rights violations. These violations are often implemented in response to crises: ballooning government deficits, rampant corruption, liquidity and banking crises, sanctions, shortages, sovereign defaults. Sometimes these issues are of the governments' own making. In other scenarios, these are exogenous shocks. Either way, policy responses that restrict the rights of citizens and corporations have become all too common.

These phenomena can be found to varying degrees in nearly every country in the world, playing out either subtly in purportedly freedom-loving democratic societies or much more obviously in authoritarian regimes. Perhaps nowhere, however, have all these phenomena manifested so clearly as they have over the past decade in Venezuela. Rampant government spending as a result of socialist policies led to an economic dependency on oil. The oil price rout of the past half decade—combined with an election, rampant corruption, and prolonged geopolitical tensions with would-be trading partners—has resulted in economic trauma and isolation. The government's responses to these situations have led to hyperinflation of the local currency, capital controls, confiscation of assets, price controls, rationing, and debt default. Just about every possible breach of economic and monetary freedom that could happen has occurred in the past decade in Venezuela.

The solutions that the Venezuelan people have crafted in the face of extreme economic strife are a testament to the people's resilience and also to the depth of the human need for a sound monetary system, for protected property rights, and for freedom to transact and trade.

I see three ways in which individuals and organizations go about defending their economic rights from government infringement: by accessing alternative financial systems, by hedging their exposure to their failing local economies, and finally by emigrating to freer jurisdictions. I refer to these three approaches as building tunnels, finding bunkers, and using escape hatches.

TUNNELS

The financial system is extremely fragmented. Every currency, every jurisdiction, and every individual or type of institution operates within its own silo. These silos are connected via correspondent banking systems, technology, individuals employed in critical back-office reconciliation roles at banks, legal and compliance teams, communications systems, pools of carefully managed liquidity, market makers, and the many other entities and processes that make up global markets. All of this infrastructure ensures the free flow of capital and goods between and within counterparties. When these paths break down or are cut off, people and organizations find their right to a free and open financial system compromised. In these conditions of restriction, repression, and friction, people build tunnels in order to continue to freely transact and trade.

There are many reasons these connections can be severed. Sometimes an external party may cut the connection. Sanctions are the most obvious example: other countries limit or halt the movement of funds and goods to a specific jurisdiction. In other cases, the government itself stops the flows. Capital controls and limits on bank withdrawals are representative examples.

Venezuela has experienced fragmentation at various levels in the past decade. At the national level, sanctions (in particular those imposed by the United States) have limited the movement of goods and capital into the country. These sanctions, coupled with a sovereign default, have effectively locked the nation-state out of international borrowing markets. If sanctions are keeping international funds out, capital controls are keeping local funds in. Meanwhile, institutions within the country suffer enormous difficulties in transacting business and transferring funds among each other. Because of the fragility of the banking system and the careful monitoring of the liquidity profile of each banking institution, banks do not freely send funds to each other. This is to say nothing of the pain that individuals endure in interacting with these institutions: prohibitively long lines and waits for service, withdrawal limits, and other hurdles. There is nothing free nor open nor functional about this financial system. And yet, through creativity and resilience, people and institutions have dug the tunnels necessary to enable them to continue to operate freely at each of these levels.

Faced with rationing, price controls, and scarcity of goods, people have built networks and made connections at an individual level to enable the continued functioning of markets. Generally, here, these tunnels consist of social networks, whether virtual or literal. Facebook groups and WhatsApp conversations connect individuals in service of helping each other to track down hard-to-find goods such as medicine and hygiene staples. Outside of the digital realm, people leverage their church groups, country clubs, college classmate cohorts, and other communities to find markets for the products and services they need. Facebook, WhatsApp, and these real-world factions work together to send, receive, and exchange currencies outside of the local, hyperinflating bolivar. These social networks rely on trust among the participants: trust that the group will not be outed to the authorities, trust that counterparties will follow through on their leg of the trade, and trust that the group will come through to source the necessary item, asset, or service.

These money changers also provide conduits in and out of the country, effectively enabling people to evade capital controls.

JILL CARLSON

> “Technology has opened a new frontier.”

Not only do they have six or seven bank accounts and clients at various institutions within Venezuela; they will also have access to bank accounts and customers in other countries, such as the United States or neighboring Colombia. The money changers provide remittance corridors for these countries using an informal network. In such a system, money does not actually cross borders and is therefore not subject to capital controls. Rather, if someone is seeking to remit money from Colombia to Venezuela, they will send Colombian pesos to the changer's Colombian bank account. The money changer will then transfer the corresponding amount of Venezuelan bolivars from one of his Venezuelan accounts to the recipient on the other side.

When using products that leverage cryptocurrency, such as LocalBitcoins, a Colombian seeking to send money to Venezuela might use an exchange to change pesos into bitcoin and then cash the bitcoin out as bolivars to be deposited in a friend's or family member's account on the Venezuela side.

Thus, technology has opened new, more available tunnels and a new frontier in the fight for economic and monetary rights and freedoms.

BUNKERS

While tunnels help to evade restrictions on the ability to freely spend and make transfers, they are insufficient in the fight to store value effectively. To achieve that, the tunnel must lead to safety: a bunker. In this context, a bunker could be a store of value, a safe haven from volatility or debasement, a refuge from possible confiscation, or a hedge against the local economy. If a tunnel is the conduit by which assets move outside of the formal system, a bunker is the asylum in which assets can be safely held.

Different types of attacks result in the need for different types of bunkers. Inflation, depending on how it manifests, may demand hedges or the positioning of assets in instruments that will offset the deterioration of the value of the currency. It is not always enough to diversify savings and accumulated wealth; sometimes the bunker takes the form of diversified income streams as well. Real estate, foreign currencies, and financial assets are often used as hedges, but goods and products can be equally sound and much more accessible. Hoarding of these products can be a refuge for value. Financial and economic freedom is not only about the right to spend and transfer assets; it is also about a person being able to secure the worth of their assets.

In Venezuela, in the face of inflation, people and organizations tunnel their way to all manner of safe havens. For many, tunneling their assets out of the country altogether is the optimal solution. Corporations and wealthy, well-connected individuals who can move assets offshore do so. For some companies, this means repatriating operations. For people, this may mean moving what money they can to the bunker of a bank account in another country. Tunneling assets to a safe haven can also mean making purchases abroad. Real estate is a popular choice. The best situation of all lies in the carry trades conducted by individuals and organizations alike: taking out a loan in their depreciating local currency and using that money to buy property overseas. The value of the loan trends toward zero as inflation takes its toll, while the property maintains its worth.

These financial havens are generally available only to those with existing international accounts and the means to access them. Those who do not have such connections directly have had to be more creative in diversifying out of the inflating local currency. In many cases, people get access to bunkers through friends or family members. They may not, themselves, have bank accounts or access abroad, but often they know someone who does. It is not uncommon for an aunt to request that her nephew, who attended a university in the United States, hold money in dollars for her in his U.S. bank account. He will effectively serve as her bank, offering an exchange rate and accepting local currency from her. Thus, she can access the relative safety of dollars without having direct access offshore herself.

Bitcoin offers another benefit here. Because bitcoin does not need to be stored in a bank, the frictions of withdrawals and the risk of loss or seizure at the hands of government or institutions are diminished. As long as those who are saving in bitcoin maintain the security of their mobile phones, their assets are securely theirs. Outside of cryptocurrency, other methods of achieving seizure resistance also exist. Because there are restrictions on how long a merchant can hold goods on its books, for example, to prevent hoarding, some merchants create multiple entities and effectively launder their products among the entities to evade enforcement. This, too, is a bunker.

Bunkers provide refuge to people and organizations that need to shelter their assets from inflation, from debasement, from volatility, and from vulnerability to seizure and forfeiture. Wherever economic rights are violated, people find ways to defend them, first by building tunnels out of their failing systems and then by finding safe havens in which to store their assets.

> "Cryptocurrencies play an important role."

ESCAPE HATCHES

Although they are often not acknowledged with the formal status reserved for those fleeing violent conflict, economic refugees are a very real phenomenon. There are situations in which the right to a free, open, and functional financial system is so deeply and routinely violated that there becomes no other choice than to emigrate.

The emigration pattern in Venezuela demonstrates that even the tunnels and bunkers that people have found and created fall short of preserving the freedom needed to reasonably live, let alone thrive. In the three years between 2016 and 2019, 4.6 million people left Venezuela out of a population of roughly 30 million. Most have left to seek the better economic situations of neighboring or friendly countries. This is to say nothing of the numerous corporations that have exited the country, taking their operations with them.

In the case of both companies and individuals, one of the key challenges of exiting lies in being able to take assets along when leaving. Companies have faced confrontations with the socialist government and had to take losses on their Venezuelan operations upon leaving the country. Individuals, too, suffer these challenges. Having assets in a bank account in Venezuela does very little good once a person gets to his or her destination country.

Once again, cryptocurrencies can play an important role in creating a more accessible path for people to take their savings with them when they leave. As long as a person's phone is not confiscated—or, for more sophisticated users, as long as they can remember their pass phrase—cryptocurrency assets can be brought safely across the border.

In the fight to defend their economic rights, many are forced to choose the escape hatch: to exit the system altogether.

CONCLUSION

Since long before John Locke wrote about inalienable rights in the 17th century, people have been battling to maintain their rights. Underground salons have served as bastions of free speech in areas where censorship reigns. Books and texts have persisted in places where they were repressed. Religious practices have persevered even as beliefs were banned. People have long fled their homelands seeking greater freedoms. It is no different when it comes to economic freedoms. Technology, and most particularly cryptocurrency, is for the first time providing people with tunnels, bunkers, and ways of taking their wealth with them when they leave their country. The methods and approaches used in fighting for the right to a free, open, and functional financial system will doubtlessly continue to evolve—and just as surely, people will continue to leverage technology in waging these battles. ■