Tunnels, Bunkers, and Escape Hatches: Defending Economic Rights under Fire

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

In his *Second Treatise of Government* ([1689] 1980), Locke viewed life, health, liberty, and possessions as the natural, inalienable rights of mankind. He posited 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 U.S. Declaration of Independence to the United Nations Declaration on Human Rights (1948: 217, A III).

Nevertheless, executives, judiciaries, legislative bodies, and central banks around the world have continually broken their social contract on this front: not only failing to defend the natural rights of possessions and property, but often actively harming individuals' ability to hold value and to freely transfer and exchange assets. Access to a free, open, and functional financial system is a fundamental

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human right. One that is continuously violated by states and policymakers globally.

The threats posed to this right by governments are many, varied, and often interconnected. In this article, I will not address either taxation or social and welfare policies, which are arguably accepted by Locke's framing of government (1980: XI: 140–42). One need not go that far in order to demonstrate government violation of rights around property and possessions. Inflation, confiscation, capital controls, price controls, rationing, bank withdrawal limits, cash shortages, and all manner of similarly restrictive policies fall clearly in this category. These are often implemented in response to crises: ballooning government deficits, rampant corruption, liquidity and banking crises, sanctions, shortages, and sovereign defaults. Sometimes these issues are of governments' own making. In other scenarios, they are exogenous shocks. Either way, policy responses that restrict the rights of citizens and corporations have become all too common.

While these responses can act as short-term bandages to slow the bleed, they are rarely effective over the long term. As Locke himself may have predicted, individuals and entities tend to take it into their own hands to defend their rights when they are under attack. They find ways to slip the binds of the restrictions, they get their savings out of their failing currencies, and in some cases, they physically flee the jurisdiction. In other words, in order to evade problematic economic policies or the damage of monetary mismanagement, people and organizations build tunnels to get their assets out, find bunkers to protect the value of their property, or exit altogether.

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 of these phenomena manifested so clearly as they have over the last decade in Venezuela. Rampant government spending due to socialist policies has led to an economic dependency on oil. The oil price rout of the last half-decade, combined with electoral controversy, 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 last decade in Venezuela.

Venezuela is also illustrative of the creativity that people and organizations employ in response to these contraventions of their rights. Entrepreneurial individuals operate underground marketplaces. Engineering students mine bitcoin as an inflation-proof source of income. Mothers and fathers who went abroad in search of better prospects leverage *hawala* networks to send money back. Those living close enough to the borders smuggle goods and monies in from neighboring countries. The solutions that Venezuelan people have crafted in the face of extreme economic strife are a testament to their 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.

It is unrealistic and unreasonable to expect that Venezuela, or any other state actor, will ever relinquish its hold over economic policymaking or its monopoly on money. As long as governments and central banks are around to do so, economic and monetary policies will be mismanaged at the expense of the rights and best interests of the people. As demonstrated by the extreme example of Venezuela, it is therefore up to the private sector as well as individuals to craft and make accessible the avenues to achieve economic and monetary freedom.

In the remainder of this article, I discuss three ways individuals and organizations go about defending their economic rights from government infringement by (1) accessing alternative financial systems, (2) hedging their exposure to their failing local economies, and (3) emigrating to freer jurisdictions. I refer to these three approaches as building tunnels, finding bunkers, and using escape hatches. In detailing these methods, I return frequently to Venezuela, relying on both secondary sources as well as firsthand data gathered by myself and my Open Money Initiative colleagues: Jamaal Montasser, Alejandro Machado, and James Downer. I define tunnels, bunkers, and escape hatches in turn and detail how they are used. I speak to the benefits and shortcomings of each approach. Finally, I touch upon how these methods have existed and evolved throughout time and how cryptocurrency and other technologies represent only the latest additions to a wide array of tools used in the protection and maintenance of economic freedoms.

Tunnels

The global 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 comprise 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, the connection may be cut by an external party. 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 flows are stopped by the government itself. Capital controls and limits on bank withdrawals are representative examples.

The issues here become fractal, with similar patterns recurring at successively more local scales. There is the nation-state level of fragmentation, in which assets cannot be moved or exchanged across borders based on the policies of one or both countries. There is also fragmentation that occurs within a given country at the institutional level, in which friction exists (for example) in executing a transfer between two banks. Finally, there is fragmentation that can exist at the individual and organizational level: limiting the ability of people, merchants, and service providers from interacting and transacting. For each of these blockades, however, people have found ways to build tunnels through and around.

Venezuela, in the last decade, has experienced issues at each of these levels. 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 and transferring among each other. Due to the fragility of the banking system and the careful monitoring of the liquidity profile of each banking institution, banks do not freely send funds among 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 either 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 inroads to each other 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.

When the financial system is as fragile as it is in a place like Venezuela, restrictions get implemented on money movement out of and between banks. The careful management of capital reserves at each institution means that each bank must clear enormous hurdles before moving money out. The result is that customers face a difficulty in moving money between accounts at two different banks and a near impossibility of withdrawing sufficient cash. Thanks to cash shortages and the need for ever-higher cash denominations due to hyperinflation, the entire economy runs on bank transfers. What does this mean when transfers themselves are high friction? For these situations, people have again built the tunnels to enable the free flow of funds. It is not uncommon for people to have accounts at—and balances in—multiple institutions so that if their grocer only uses a given bank, they can still pay him. Money changers, who act as conduits among several jurisdictions and who serve dozens of clients, often have up to seven accounts at different banks in Venezuela alone to ensure they can work with their entire customer base.

These money changers also provide conduits in and out of the country, effectively enabling people to evade capital controls. Not only do they have six or seven bank accounts and clients at various institutions within Venezuela, they also have access to bank accounts and customers in other countries, like the United States or neighboring Colombia. These 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. Rather than executing one transfer across two systems, he executes two transfers within two systems. This naturally demands active and painstaking management of liquidity within each silo—at the national level but also at the level of each bank and institution. Nonetheless, this mechanism ends up being largely effective.

Often these money changers are found via the WhatsApp and Facebook communities mentioned earlier. There are also other options that exist for seeking them out, however. Products that leverage cryptocurrency, like LocalBitcoins for example, serve as marketplaces for moving money across borders. On LocalBitcoins, market makers post the exchange rate at which they are willing to buy or sell bitcoin as well as the jurisdiction and banking institutions they can work with. When using LocalBitcoins, a Colombian seeking to send money to Venezuela might exchange pesos into bitcoin using an exchange and then cash the bitcoin out as bolivars to be deposited in a friend's or family member's account on the Venezuela side.

Services like LocalBitcoins are not the only way in which cryptocurrency serves as a tunnel between jurisdictions. The act of mining cryptocurrency also transcends borders. For those with the expertise and access to the requisite hardware, mining bitcoin is a way to generate auxiliary income outside of the failing local currency. In Venezuela in particular, mining is attractive due to the government subsidy of energy. Where elsewhere mining would be prohibitively expensive to get started, in Venezuela, it is much more accessible.

While these examples may suggest that building tunnel networks amongst people, institutions, and between countries is an act that relies on modern technologies—from social media sites to bitcoin miners—it is worth noting that the subversive use underground tunnels in defense of one's financial rights predates any of the aforementioned practices. As Carvalho and Garcia (2006: 31) observe: the "market, then, appears to always find a means of circumventing restrictions placed on foreign capital, rendering capital controls ineffective in the medium term." Up until the last decade, however, these tunnels were only accessible to those with financial means and privileged social and political positions. Financial engineering approaches to evading capital controls; leveraging derivatives, options, and depository receipts; as well as legal strategies, including disguising short-term trades as foreign direct investments and reallocating profits amongst subsidiaries, have been used for the better part of a century. But these methods were only possible for those with strong foreign and domestic banking relationships: high net worth individuals and multinational corporations. 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. In order to achieve the latter, the tunnel must lead to safety: to a bunker. A bunker in this context 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. When it comes to threat of confiscation, other types of bunkers are needed. In some cases, these are secure physical locations to store goods or cash. In other cases, the bunker is a digital vault in the form of an asset like bitcoin, secured by a secret passphrase and inaccessible by the government or other entity. 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. This 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 these connections directly have had to be more creative in diversifying out of the inflating local currency. In many cases, people get access to these bunkers via 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 went to 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.

Diversification of savings is one goal. Many, however, do not have savings to diversify and instead need to earn income in an inflation-resistant manner. Finding and doing work internationally online has become a lifeline for many in this situation. Even those who are in elite professions in Venezuela—professors, doctors, lawyers—frequently find that they earn more performing digital tasks remotely and cross border than they can in their careers locally. It is not unusual for these individuals to get paid in and rely on bitcoin. In this case, the bitcoin payment represents the tunnel while the bitcoin itself is the bunker, acting as a relatively stable store of value compared with the inflating local currency.

Bitcoin offers another benefit as well: 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 their 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. It is, however, impossible to stay forever in a bunker. In order to purchase food, in order to pay for school, in order to make rent, people need to continually interface with their local economy. Thus, there is a constant motion in and out of bunkers for most: cashing out just enough money to spend over the next hour or day before the money loses its value. It is no wonder that amidst this anxiety and chaos, some feel that even the bunker is insufficient and that the only option is to leave altogether.

Escape Hatches

Although they are often not acknowledged with the formal status reserved for those fleeing violent conflict, there exists the very real phenomenon of economic refugees. 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 people have found and created fall short of preserving the freedom people need 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 (World Bank 2019). Most have left to seek the better economic situations of neighboring or friendly countries. This is to say nothing of the numerous corporations who 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 when leaving the country. Individuals, too, suffer these challenges. Having assets in a bank account in Venezuela does one very little good once they get to their destination country. They need to find a tunnel out to take their assets with them. In many cases, people work to physically carry their assets across the border—smuggled as cash in their shoes or hidden in their hair, worn across in the form of jewelry. These methods, however, are vulnerable to confiscation by the officials overseeing emigration.

Cryptocurrencies again can play an important role here in creating a more accessible path for people to take their savings with them in leaving. As long as a person's phone is not confiscated, or, for more sophisticated users, as long as they can remember their passphrase, cryptocurrency assets can be brought with them 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. The challenges do not end there, though, in that people then need to plan how to take their assets with them. This is not even to mention the emotional, legal, and logistical challenges that these economic refugees face in starting over in a new country.

Conclusion

Since long before John Locke wrote about inalienable rights in the 17th century, people have been battling to maintain those 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 others sought to ban their beliefs. People have long fled their homelands seeking greater freedoms. It is no different when it comes to economic freedoms. In speaking of tunnels, bunkers, and escape hatches, I do not speak of anything specific to economic and monetary practices. Nor do I speak of anything new. These are the three paths available to anyone experiencing repression in any form. What is different and new is that these paths forward are no longer reserved only for those who can afford them, have the connections to access them, or have the risk tolerance to attempt them. 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 as surely as that, people will continue to leverage technology in waging these battles.

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