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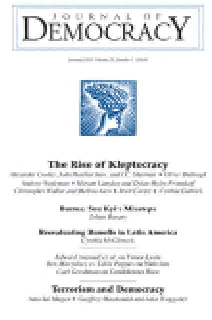

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The Rise of Kleptocracy

THE DARK SIDE OF GLOBALIZATION

Oliver Bullough

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The first known appearance of the word "kleptocracy" in English came in December 1819, in an essay called "Thieves, Ancient and Modern." The author, Leigh Hunt, was a radical, a dandy, and a friend of many of the leading poets of the day, a figure who would later be ruthlessly caricatured (as the parasitical aesthete Harold Skimpole) by Charles Dickens in *Bleak House*. The 1819 essay is wide-ranging and lengthy; it includes a section on organized criminals in Spain whom it describes as "the Spanish kleptocracy."[1] Hunt's journal, called the *Indicator,* circulated among England's educated classes, and readers of his time would naturally have understood the Greek roots of the word—"thieves" combined with "power" (or "rule"). Thus, he did not trouble to explain exactly what he meant by it.

Hunt remained widely read through much of the nineteenth century, and his word reappeared occasionally in the following decades. In 1857, an anonymous author in *Blackwood's Edinburgh Magazine* used it to describe "thousands of convicted thieves at large" in England.[2] Two decades later, Major-General Sir Frederic Goldsmid described part of Central Asia as the "kleptocracy of the Turkmans."[3] From these and other appearances, it seems clear that the word was understood to refer to any organization of predatory criminals. A modern equivalent would perhaps be the networks of kidnappers that operated outside the law in Chechnya in the 1990s.

Obviously, therefore, Leigh Hunt and his emulators did not use the word kleptocracy in the same way that we do today. When he coined the term, it carried none of the connotations of "egregious grand corruption" that twenty-first–century authors have in mind when they speak of kleptocracies in places such as Equatorial Guinea or Uzbekistan. Indeed, contemporary writers never use "kleptocracy" in the sense that Hunt and

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Goldsmid did, although that definition persists in the *Oxford English Dictionary*. We would probably describe their kleptocracy as a mafia, and their kleptocrats as bandits.

Credit for the modern meaning of kleptocracy goes to Stanislav Andreski, a Pole who fought the German invasion in 1939 and was taken prisoner by Soviet troops when they invaded his homeland from the east. He escaped the fate of his fellow Polish officers, who were murdered en masse in 1940 by Stalin's government at Katyn, by slipping away from his captors into a forest; he trekked across Europe to France, and eventually reached the exiled Polish army in Britain. After the war, he became an academic and worked in South Africa, Chile, and Nigeria. In 1964, he founded the sociology department at England's Reading University. His experiences gave him an enduring interest in power, and a lively and iconoclastic academic voice.

Andreski appears to have thought he invented the term "kleptocracy" for his 1966 work *Parasitism and Subversion: The Case of Latin America* (he called it a "self-explanatory neologism"). Although it was not in fact a wholly new word, he did give it an entirely new sense. In his analysis of the South American states, he used it to refer to institutionalized corruption—the "illegal use of public office"—but did not delve into the details.[4]

It was Andreski's 1968 book *The African Predicament* that showed that he was analyzing something new and troubling. He described a system where the ruling classes of the recently independent ex-colonies had little if any loyalty to the countries for which they worked, instead prioritizing ties to their tribes or families. This was unsurprising, since colonial powers had artificially set down what became the borders for many of these countries, and fellow citizens often had little in common with each other in terms of language, religion, or culture. As a consequence, civil servants used their offices to enrich themselves and their relatives rather than to do the jobs with which they were nominally entrusted. "Fabulous sums were obtained for granting concessions to foreign companies, and fortunes were made from sales of lands belonging to the state," he wrote. "Graft distorts the whole economy. Important decisions are determined by ulterior motives regardless of consequences to the wider community."[5]

He recycled the word kleptocracy to describe this situation, but gave it a more precise definition: a situation where "the functioning of the organs of authority is determined by the mechanisms of supply and demand rather than the laws and regulations." He looked past the labels chosen by the newly independent governments to the essence of their systems, and came to a startling realization. "A kleptocratic state," he argued, "constitutes a curiously generalised model of laissez-faire economics even if its economy is nominally socialist."[6]

He has faced criticism for his evaluation of the postcolonial states. A scanned version of the introduction to his book available online has the words "basically racist and ill-informed, don't waste your time"

scrawled across the title page.[7] But he also found interested readers who felt he had identified an important issue. Among them was Sinnathamby Rajaratnam, the foreign minister of newly independent Singapore, whose government maintained a strict anticorruption platform. Rajaratnam, a former journalist who had worked with George Orwell during a stint in London during the Second World War, made a speech on 14 November 1968 in which he picked up Andreski's word kleptocracy (crediting it to "one sociologist"), and defined it as "a society of the corrupt, for the corrupt, by the corrupt."[8]

Rajaratnam described how once-idealistic politicians from other Asian ex-colonies had gradually been corrupted by the positions they held, building larger homes, owning businesses, and buying luxuries out of all proportion to their salaries. "Wives of bureaucrats were seen at official functions shimmering with jewels and gowns that in honest societies would have immediately caught the eye of income tax officials," he said.[9]

He was careful, as a diplomat, not to single out any particular countries for criticism, but it is remarkable that he should have felt the term kleptocracy, which Andreski had used with reference to Africa and Latin America, to be so relevant to countries thousands of miles away. Rajaratnam and Andreski were talking about states with different histories and political cultures, on different continents, and in different time zones, yet their leaders and institutions had fallen into eerily similar traps.

Corruption Unleashed

It is clear, then, that in the late 1960s this novel phenomenon of egregious grand corruption was not particular to sub-Saharan nations, but rather was something more universal. The similarities between the two commentators' depictions extended beyond the word they used. Andreski and Rajaratnam described near-identical structures: greedy politicians at the top and pyramids of underlings beneath them, with each layer stealing in turn. For citizens, this meant that even the smallest interaction with officials had to be smoothed over with a cash payment. "The reader should not imagine that all the people guilty of such deeds are monsters. The less well placed of the staff would find it very difficult to mend their ways because very often their salaries do not come—sometimes being delayed for months, sometimes vanishing altogether," wrote Andreski.[10] Rulers were extracting large amounts of money at the top of the pyramid, which meant the state lacked the funds to pay its employees at the bottom. Those employees then supplemented their missing salaries by taking bribes from the public. The entire state had essentially been turned into a machine to extort money from its citizens, for the benefit of its rulers.

The University of Oxford's Leonard Barnes was just one of many writers who quickly adopted Andreski's word to describe this troubling phenomenon. In his book *Africa in Eclipse,* published in 1971, he fol-

lowed Andreski in cutting through what governments called themselves and focusing instead on the nature of their actions. An avowed anticolonialist, he was troubled to see that the leaders of the newly independent states had maintained the extractive structures of their old European rulers, simply adapting these structures to benefit the new ruling elite. "All the energy and talent of the new Africans go into aping the performance of their European predecessors. Indeed, it frequently happens that behind the new African office chair stands the European predecessor himself, now disguised as an 'adviser,'" he wrote.[11]

All these writers used the word "corruption" alongside "kleptocracy," so it is clear that they did not consider the two terms to be synonymous. Andreski drew on his knowledge of his homeland of Poland to compare the "socialist handshake" (the paying of a bribe) to corrupt practices in countries such as Nigeria. The difference, he said, is that "nobody can become a millionaire by accumulating the proceeds of graft" in a communist country.[12] The countries of the Soviet bloc were corrupt, but they were not kleptocratic.

This means that kleptocracy was something new. Some fresh impetus was driving corruption in the ex-colonies, allowing officials to steal more than ever before. "Many of them have simply transferred big sums from the treasury to their private accounts," Andreski wrote, "but the practice of getting cuts on government contracts constitutes the chief fount of illegal gains. In Nigeria the customary cut is 10 per cent and for this reason the expression 'ten-percenter' is often used to designate anybody active in politics."[13]

This volume of money could not be hidden under a mattress or passed from palm to palm during a handshake. Processing such large sums would require banks willing to accept the money without asking questions—an option unavailable to the officials of communist Poland—and a way for politicians to draw on their illicit funds to purchase luxuries. Andreski and Rajaratnam were witnessing what happened when a modern financial system, driven by innovative communications technology, was unleashed on countries without developed legal systems or robust institutions.

Kleptocracy, the supercharged form of corruption that Andreski identified in 1968 and repurposed Hunt's word to describe, is the dark side of globalization. Offshore finance is what made it possible.

The Origin of Offshore Finance

When representatives of the Allied Powers met at Bretton Woods, New Hampshire, in 1944, they envisioned a new global financial architecture that would, among other things, curtail unrestricted international cash flows. Over several weeks of negotiations in the bucolic resort area, at a conference dominated by Treasury official Harry Dexter White for the United States and leading economist John Maynard Keynes for the

United Kingdom, representatives of the allied powers agreed to a system of capital controls. They blamed uncontrolled flows of hot money for destabilizing the world economy in the 1920s and 1930s, thus driving the tensions that had led to World War II. They aimed to secure the peace by locking speculative capital behind national borders and blocking countries from manipulating their exchange rates in order to wage trade wars. These measures would, they hoped, lay the groundwork for a stable international financial system.

Keynes wanted a new global currency to take over the role that physical gold had played in controlling exchange rates before the First World War (since the United States owned almost all the world's gold by 1944, a return to gold was not a realistic option). He envisioned an elegant self-regulating system, overseen by technocrats from the new International Monetary Fund (IMF), in which the new currency would accumulate in places with trade surpluses, thus driving up these countries' exchange rates—making their national currencies, and thus their exports, costlier to foreigners—until balance was restored.

White, however, not wishing to abandon the U.S. dollar's new role as the preeminent world currency, proposed pegging exchange rates to the dollar rather than a new international monetary unit. Foreign governments would keep their reserves in dollars, which would in turn be pegged to gold (one ounce would always cost US$35). The mechanism would be broadly similar to the one that Keynes had proposed, but officials in the U.S. Treasury Department, not the IMF, would play the leading role. Since the United States was nearly the only solvent country at the Bretton Woods meeting, White got his way.

The Bretton Woods system required the U.S. government, whose domestic currency had become the international standard, to always act as a neutral arbiter. The problem was that not all foreign governments trusted the United States to do so. In the immediate postwar years, the U.S. government had sequestered communist Yugoslavia's gold reserves; after this, the rattled Eastern bloc countries made a habit of keeping their dollars in European banks rather than in New York. Additional signs led observers to suspect that the United States, rather than acting neutrally, would exploit its financial position to further U.S. foreign policy.

Under the Bretton Woods system, the pound sterling, previously the dominant currency for international trade, was relegated to a position of irrelevance that grew ever more pronounced as colonies broke free of the British Empire. The City of London, once the engine of the empire, gradually abandoned its world-straddling ambitions. Britain at the time was all but bankrupted by its war debts, and by the cost of building a new society at home while supporting what was left of the empire. It staggered from one crisis to another. In 1957, after the Suez incident, the United Kingdom raised interest rates sharply and restricted the use of sterling to finance foreign trade in an attempt to protect its currency.

City banks, cut off from sterling, began to use dollars instead, and they obtained those dollars from those same Eastern bloc countries that—distrusting Washington's intentions—had taken to banking in Europe rather than New York. This accidental alliance between communist politicians and City bankers turned out to be very profitable. In the United States, there were limits on how much interest banks could charge on dollar loans, and banks had to keep some of their dollars in reserve in case loans went wrong. London banks labored under no such constraints. The banks had discovered a flaw in the Bretton Woods architecture: If they used dollars outside the United States, then U.S. regulators could not touch them, and British regulators did not care. These stateless dollars—they became known as "Eurodollars," perhaps because of the "Euro" telex address used by one of the Soviet-owned banks—could flow between countries unhindered, just like in the old days. The total sum of money involved was hardly enormous compared to the amount moved by U.S. banks in New York, but it was growing by a third each year. London had finally found a new revenue stream.

The banks using the new unregulated Eurodollars kept two sets of books. One set told of the usual transactions, labeled "onshore," the pounds that obeyed the exchange controls. The other set of accounts described the piratical new Eurodollar market. These transactions were dubbed "offshore"—as if they were conducted outside of British territorial waters, and Britain had no jurisdiction over them. The two sets of transactions physically took place in the same location—the City of London—but legally one set occurred elsewhere. And this idea of offshore, of an asset being legally outside the jurisdiction in which it is physically present, was crucial to the genesis of kleptocracy.

Trading Eurodollars

This offshore Eurodollar market breathed a bit of life into the City of London in the late 1950s, but not very much. The big bond issues were still taking place in New York, to the annoyance of City bankers. Even when Europeans were both the borrowers and the lenders, it was American banks that were earning the commissions for setting up the deals. This especially vexed one banker in particular: Siegmund Warburg.

Warburg was an outsider in the cozy world of the City. It was Warburg who introduced the idea of hostile takeovers to Britain, despite the disapproval of the City establishment. He traveled widely, networked ceaselessly, and learned from a friend at the World Bank in 1962 that some $3 billion in U.S. currency was circulating outside the United States. Warburg was fairly confident he knew where he could find a significant chunk of that $3 billion—in Switzerland—and he wondered if he might not find a way to put the money to work.

The Swiss had been hoarding cash on behalf of scrutiny-evading for-

eigners since at least the 1920s, when France raised its top tax rate to 72 percent. Between this point and the outbreak of World War II, the amount of money held in Switzerland increased tenfold, eventually making up around 2.5 percent of all household wealth in Europe (at a time when the continent's economy in general was stagnant). The customers were overwhelmingly Frenchmen and Italians disinclined to pay their taxes. The good times continued after World War II, and by the early 1970s some 5 percent of Europe's household wealth was owned through Swiss institutions.[14] You just loaded up your car with cash, drove it to Zurich or Geneva, deposited the banknotes with a discreet cashier, and went on your way.

For the London bankers of the early 1960s, this was tantalizing: The money squirreled away in Switzerland was just what they needed in their quest to start selling bonds again. If they could somehow access this money, package it up, and lend it, they would be back in business. The postwar financial system, however, stood in the way. How could Warburg find a way to move that money from Switzerland to clients who wanted to borrow it, wherever they might reside? He took two of his best men and, in October 1962, told them to get it done.

Ian Fraser, a Scottish war hero turned journalist turned banker, took the lead in Warburg's issue of what became known as "Eurobonds." He and his colleague Peter Spira had to find ways to defang the taxes and controls designed to prevent hot money from flowing across borders, and to pick and choose different aspects of different countries' regulations to apply to the various elements of their creation. It took them six months, and required remarkable persistence.

If the bonds had been issued in Britain, there would have been a 4 percent tax, so Fraser formally issued them at Schiphol airport in the Netherlands. If the interest were paid in Britain, it would have been subject to another tax, so Fraser arranged for it to be paid in Luxembourg. He managed to persuade the London Stock Exchange to list the bonds, even though they were not issued or redeemed in Britain, and he talked his way around the central banks of Britain, Denmark, France, the Netherlands, and Sweden, all of which were concerned about the Eurobonds' impact on currency controls. The final trick, aimed at circumventing yet another tax, was to pretend the borrower was Autostrade—the Italian state motorway company—when really it was IRI, an Italian state holding company.

The cumulative effect of this game of jurisdictional Twister was that Fraser created a highly convenient bond that could be turned back into cash anywhere, one that paid a good rate of interest not subject to taxes of any kind. Legally, Eurobonds essentially existed outside the jurisdiction of any government; they were the ultimate expression of offshore. "The secret . . . was that the bonds must be totally anonymous, coupons must be paid without any deduction of tax and the bonds at maturity paid off in full without any questions asked," Fraser later wrote.[15] Before Eu-

robonds, hidden wealth in Switzerland could do relatively little; but now it could buy these pieces of paper, which could be carried anywhere or redeemed anywhere and all the while paid interest to their owners, with no taxes required. Wealth had been set free.

So, who was buying Fraser's magical invention? "The main ultimate buyers of these bonds were individuals, usually from Eastern Europe but often also from Latin America, who wanted to have part of their fortune in mobile form so that if they had to leave they could leave quickly with their bonds in a small suitcase," Fraser wrote. "There was still a mass migration of the surviving Jewish populations of Central Europe heading for Israel and the West. To this was added the normal migration of fallen South American dictators heading East. Switzerland was where all this money was stashed away."[16]

The sellers of Eurobonds did not care where the money came from. The cash of tax dodgers, dictators, and refugees was washing around all together in the same banks, and all these account holders bought the same offshore instruments. Later historians calculated that most of the money belonged to tax-dodging Europeans—but the important point is that anyone who hid money in Switzerland, whether they were scared (Jewish refugees), naughty (businessmen who disliked taxes), or evil (dictators), could take advantage of offshore finance in exactly the same way. This is the dirty secret at the heart of Eurobonds. The privacy, the portability, and the tax-free profits that attracted dentists in Antwerp and insider-trading bankers in London also attracted Nazis in Buenos Aires and Holocaust survivors in Tel Aviv. In Switzerland, the naughty tax-avoiding money mixed with the evil looted money. The Eurobond was convenient to anyone with cash to hide, whatever its origins.

That first Eurobond deal was for $15 million, but once the path had been flagged, there was nothing to stop more money from following. In the second half of 1963, $35 million worth of Eurobonds were sold. In 1964, the market was $510 million. The total passed a billion dollars for the first time in 1967, and Eurobonds now represent one of the biggest markets in the world.[17] And this doomed the Bretton Woods system.

When dollars escaped offshore, they could avoid regulations and taxes—including U.S. reserve and interest limitations—but they did not stop being dollars, and thus 35 of them were still worth an ounce of gold. Because banks can lend more money than they have in reserve, the numbers of dollars that existed on paper (a figure that includes bonds) kept multiplying. And since every one was nominally worth a fixed amount of gold, the United States would have had to keep buying ever more gold to satisfy the potential demand. But Washington would have to pay for this gold using dollars, meaning it would need to bring even more dollars into existence, which would in turn require more gold purchases, and more dollars, until the system would eventually collapse under its own weight. If only Harry Dexter White had listened to John Maynard

Keynes, and the delegates had created an international currency, this would never have happened.

The U.S. government tried to defend Bretton Woods, but every restriction made it comparatively more profitable to keep dollars in London, leading more money to leak offshore and thus more pressure to build on the dollar's convertibility to gold. Where the dollars went, the bankers followed. In 1964, eleven U.S. banks had branches in the City of London. In 1975, 58 did. By that time, however, Washington had bowed to the inevitable and stopped promising to redeem dollars for gold at $35 an ounce. It was the first step in a steady dismantling of the safeguards created at Bretton Woods in an attempt to protect the world from hot money.

This is what supercharged globalization, and this is what gave us globalization's dark side: kleptocracy.

How Kleptocracy Works and How to Stop It

The City of London did not, of course, invent corruption. There have been corrupt officials for as long as there have been officials. But thanks to the new financial channels opened up by offshore transactions, the boundaries of the possible for some of these officials have expanded radically.

The pathway of corruption is: steal, then spend. The official extorts money, then spends it on something she wants. This is risky, however, because a person spending money might have to explain how she earned it. If the purchase is too obviously out of proportion to her salary, onlookers and authorities can easily guess at the crime behind the cash. Communist officials in Poland took bribes, but they were careful not to be too ostentatious in disposing of their extra income, lest their misdeeds come to the attention of the authorities. The City of London, by inventing offshore finance, added a third stage to the process and made corruption dynamic. The official still steals the money, and she still spends it, but offshore finance allows her to obscure the connection between the two.

The pathway of kleptocracy, therefore, is: steal, obscure, and then spend.

Kleptocracy always involves multiple jurisdictions, which is why it required the circumvention of the Bretton Woods capital controls before it could spring into existence. Officials can steal money in Nigeria, obscure their ownership of that money in Switzerland, and spend it in London. Or they can steal in Equatorial Guinea, obscure in the Bahamas, and spend in Paris. Steal in Afghanistan, obscure in Dubai, spend in Lebanon. Venezuela, Panama, Miami. The pattern is endlessly replicable.

The methods used to conceal the origins of the money are limited only by the imaginations of the lawyers, bankers, and accountants who do the work. Back in the 1960s, the numbered (anonymous) bank account was of course useful, as were bearer instruments such as Eurobonds, although bearer instruments are so egregious that it has become

illegal to issue them in progressively more countries. Nowadays, the key instruments are shell companies in jurisdictions that do not record ownership information (in Nevada or Nevis), trusts (the island of Jersey or South Dakota), foundations (in Liechtenstein or Luxembourg), and limited partnerships (in Scotland or New Zealand)—anything that creates a barrier between an owner and her assets. These techniques can be combined: An individual with dirty cash to spare can buy a yacht using a bank account in Switzerland, which is controlled by a foundation in Liechtenstein, which is overseen by a limited partnership in Britain, which is owned by a company in Belize, which is owned by a trust in the Marshall Islands. The number of jurisdictions that can be used is practically limitless, and each one further obscures the connection between theft and expenditure.

Any discussion about whether a particular country is a kleptocracy or not is therefore meaningless. The essence of kleptocracy is that it is globalized, not confined behind national borders. It is pointless to ask whether Russia is a kleptocracy. It is more appropriate to examine how Russia's elites are part of a kleptocratic system by which their thefts from the national budget are connected, via Scottish limited partnerships and Moldovan or Latvian banks, to the London property market. To avoid scrutiny of their actions, Russian officials exploit mismatches between regulations in different countries. If a Cypriot company has a bank account in Latvia, the authorities in either country—even if they want to investigate, which is not a given—can obtain only a partial understanding of that company's finances, while the owner will have full knowledge. This makes legal proceedings to uncover the ownership of assets held in this fashion extraordinarily complicated. The case to reclaim $6 million hidden by Haitian dictator Jean-Claude ("Baby Doc") Duvalier has dragged on since his fall from power 1986, and has now even outlived the ex-president himself.[18]

Some of the most detailed analysis of how offshoring works in practice appears in the reports of the U.S. Senate's Permanent Subcommittee on Investigations, particularly those covering the roles of offshore and private banks in laundering money for the ruling families of Equatorial Guinea, Gabon, and Nigeria, among other countries. Nongovernmental organizations, especially Global Witness and Transparency International, have also produced critical research. Court proceedings from various jurisdictions against Frederick Chiluba (president of Zambia from 1991 to 2002), Pavlo Lazarenko (prime minister of Ukraine from 1996 to 1997), and Teodorin Obiang (the sitting vice-president of Equatorial Guinea), as well as against corporations found to have violated British and U.S. antibribery laws, all confirm the basic pathway of kleptocracy: steal, obscure, spend.

The damage that kleptocracy causes is clear, and the need to combat it is urgent. It impoverishes already poor countries and saps their governments of the will and capability to act. This hollowing out of state capaci-

ties has left the door wide open for disease, famine, and misery to spread across much of the world. The money stolen from sub-Saharan Africa and the former Soviet Union could have saved countless lives had it instead been used to combat the global HIV epidemic, still a cause of immense suffering in both regions. Kleptocracy also drives public anger, which has found both positive and deeply destructive expressions. Such anger sparked the protests that started the Arab Spring, as well as the Ukrainian revolution of 2014; it has also driven young men into the arms of brutal militant groups such as West Africa's Boko Haram. "The great challenge to Afghanistan's future isn't the Taliban. . . . The existential threat to the long term viability of modern Afghanistan is corruption," said General John Allen, former commander of international forces in Afghanistan, in testimony to the U.S. Senate Committee on Foreign Relations in 2014. "The ideological insurgency, the criminal patronage networks, and the drug enterprise have formed an unholy alliance, which relies for its success on the criminal capture of your government functions at all levels."[19]

Why Transparency Matters

The world will never be able to end corruption, but combatting kleptocracy is urgent and possible. It is vital to block the pathway that allows officials to obscure their ownership of stolen wealth so they can spend it with impunity. There are two separate, but related, ways to go about this task. Both hinge on increasing transparency.

The first approach is for states to exchange information about the assets held in one country's financial institutions by another country's nationals. Nigerian governors would not be willing to stash stolen wealth in Switzerland, for instance, if they expected information on their wealth to be passed back to the Nigerian government. The Common Reporting Standard on financial information devised in 2014, which most countries in the world have promised to adopt, is a first step in this process. The United States has not signed up, however, preferring its own unidirectional Foreign Account Tax Compliance Act (FATCA) standards (passed in 2010). These do not oblige Washington to supply other national authorities with information on assets held in the United States by their citizens, but do oblige other countries to provide such information about the foreign income of U.S. citizens. This mismatch is already attracting suspicious wealth to the United States, and it is imperative that the gap between U.S. and international standards be closed as soon as possible.

The second approach involves making transparent the ownership of the corporate structures that kleptocrats use to obscure their assets. This could entail either making the relevant information available to the public at large or allowing access by state officials and approved investigators. At present, the vast majority of jurisdictions do not publish the true owners or beneficiaries of the companies, trusts, foundations, limited

partnerships, or other structures that register with them, and many do not even record that information. Even those countries that do both—such as the United Kingdom—do not check the information that is provided or require that it be notarized before being put on public record. This makes it too easy for corrupt officials such as former Ukrainian president Viktor Yanukovych (2010–14) to disguise their ownership of assets with innocuous-looking corporate vehicles. The United States has yet to take any meaningful steps to make these structures more transparent. Even the FBI is unable to ascertain the true owners of companies based in laxly regulated states such as Delaware, Nevada, and Wyoming.

Combatting kleptocracy will require a global campaign to coordinate different countries' responses and to ensure that new regulations remove loopholes rather than create fresh ones. In 2016, U.K. prime minister David Cameron hosted an anticorruption summit in London that concluded with promises to increase global cooperation against kleptocracy. But Cameron was unseated shortly afterward by the Brexit referendum, and his successor has shown no interest in following up on his initiative. Not only have no other world leaders stepped up to take his place, but the Trump administration in the United States has moved to gut the existing regulations requiring natural-resource companies to publish their payments to foreign officials.

Challenging the opaque financial practices that enable kleptocracy has proven difficult for a number of reasons. One key obstacle is that, as has been the case since the first days of offshore finance, it is not only kleptocrats who use foreign structures to obscure their assets.

When the U.S. government in 2011 proposed exchanging information on nonresident aliens' bank accounts with their home countries, 25 members of Congress from Florida (which has particularly high levels of nonresident deposits) wrote to President Barack Obama to object, on behalf of the potentially affected bank clients. "They are concerned," the letter stated, "that their personal bank account information could be leaked by unauthorized persons in their home country governments to criminal or terrorists [*sic*] groups upon receipt from U.S. authorities, which could result in kidnappings or other terrorist actions being taken against them and their family members." These are words that Swiss bankers could have used about their Jewish clients in the 1930s.[20] This is a serious objection, but it is also one that bankers have cynically hidden their misdeeds behind for years. Governments must find a way to provide a safe haven to individuals with legitimate fears, while blocking those who seek to misuse secrecy to disguise their theft.

Similarly, Western tax dodgers are no less attracted to tools that obscure their hidden wealth than kleptocrats are. The court cases against clients of the Swiss banks UBS and Credit Suisse revealed how wealthy Americans made use of Swiss accounts anonymized by corporate structures in the Bahamas, Denmark, and Liechtenstein to hide their money from the

Internal Revenue Service (IRS). They smuggled the funds back into the United States using travelers' checks, cash, and even—in one memorable instance—diamonds hidden in a toothpaste tube. In addition to keeping money out of the hands of the IRS, these secretive financial setups also kept it away from soon-to-be-ex-spouses, potential creditors, children, and other claimants. The origins of the money may have been naughty rather than evil, but there was no substantive difference between these schemes and those used by Nigeria's violently repressive ex-president Sani Abacha (1993–98), thought to be behind the theft of more than $4 billion.[21]

From the money's perspective, tax dodgers, refugees, and kleptocrats all look the same. They are all threatened by a movement for greater transparency, which helps to explain why the advocates for all three groups campaign against concerted action. This is the context in which Vladimir Putin's interference in the U.S. election (as well as in elections in France, Germany, and elsewhere) must be understood. His government is not necessarily seeking to undermine the United States or the European Union, but rather to stop them from joining together to create a coherent, unified international system that can expose and impede the Kremlin elite's illicit financial flows. In this regard, Putin is an ally of convenience for wealthy Westerners keen to avoid paying the taxes they owe, as well as for middle-class Venezuelans looking to keep their money in Miami and away from their greedy government: The steps required to combat international kleptocratic networks would expose the wealth of all three groups to unwanted scrutiny.

When politicians in Washington, London, and elsewhere put their own countries first instead of joining together to expose dirty money, they are helping to enable kleptocracy. Both the long-term well-being of the world's poorest countries and the security interests of the West demand a change in this approach.

In 1944, the Allied Powers sought to contain the threat that unrestricted money flows posed to democracy and peace by locking the cash behind national borders. That attempt failed, and globalization has taken flight, but dark money remains just as dangerous. The nonprofit organization Global Financial Integrity estimates that by the period 2012–14, "illicit financial outflows" may already have been carrying close to a trillion dollars out of developing countries each year.[22] Every one of those dollars is an obstacle to democratic oversight of the movement of illicit wealth; and the longer we delay, the more of them there will be.

NOTES

1. "Thieves, Ancient and Modern," 29 December 1819, in Leigh Hunt, *The Indicator* (London: Joseph Appleyard, 1822), 95.

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