

AN OFFSHORE COLD WAR >

Forging a Democratic
Alliance to Combat
Transnational Kleptocracy

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EXECUTIVE SUMMARY

Transnational kleptocracy is a growing threat to democracy with urgent consequences for national security, human rights, and human development. Kleptocracy combines 19th-century autocracy with 21st-century finance, which empowers dictators to enrich themselves and their cronies, hide the proceeds offshore, and use that wealth to corrode both foreign and domestic institutions. While authoritarian leaders divert public resources to their own pockets and park them overseas, democracies have largely focused on their internal problems rather than acting as a united front to address this peril effectively.

Kleptocratic forces exploit this disunity to cement their repressive rule at home and advance their own, anti-democratic agendas overseas. Year after year, Freedom House's annual "Freedom in the World" rankings show that the countries that are deemed "least" free in their ranking are often those that have heavily entrenched kleptocratic networks that have taken over as the system of governance. Traditional forms of accountability are curtailed, coopted, or eliminated as kleptocratic regimes seek to prevent their theft from being exposed by journalists and their governance from being monitored by civil society organizations.

Democracies may believe that their institutions are strong enough to resist kleptocratic influence, but the evidence warns otherwise. Russia under President Vladimir Putin, for example, has used massive wealth stolen from its people to coopt foreign leaders and businesses, spread large-scale and corrosive disinformation campaigns, and interfere in democratic elections. The focus on the strength of democratic institutions misses a larger point: as more kleptocratic wealth infiltrates democracies, it corrupts individuals and members of government, which will eventually degrade independent institutions.

Many democracies appear to be waking up to the threat posed by transnational kleptocracy and enacting policies designed to combat it. The Biden administration in the U.S. has made tackling corruption a top priority, and the U.K. and EU have signaled intentions to do the same. But because kleptocracy is a transnational, networked, and entrenched form of corruption, individual or atomized responses are insufficient. Democracies must be unified and networked in their fight against it. Transnational kleptocracy will always identify weaknesses in the global network of regulation and squeeze through them, meaning the whole network must be strengthened if it is to resist infiltration. Otherwise, the money would just move to the country that remains open to it, and the problem would continue.

To fight kleptocracy effectively, we must act together. Democracies should focus on their shared fundamental values—political and personal freedom, free markets, free speech, independent judicial systems, and freedom of expression—to develop a unified response to this top order challenge, much as they did during the fight against communism during the Cold War. That sense of democratic solidarity, where all major political parties understood and recognized the threats communism posed to democratic values, should be repurposed and reinvigorated to fight kleptocracy.

As Oliver Bullough warns in this paper, the very future of democracy is at stake.

INTRODUCTION

Democracies are less united today than they have ever been in my lifetime, perhaps even in my parents' lifetimes. This disunity is allowing kleptocratic regimes all over the world to cement control in their own countries and to extend their influence abroad, thus threatening the future of democracy everywhere. Kleptocracy combines 19th-century autocracy with 21st-century finance and this practice empowers dictators to enrich themselves and their cronies, hide the proceeds offshore, and use that wealth to corrupt both foreign and domestic institutions.

Western countries need to wake up to the threat kleptocracy poses to the integrity of democracy. Most important, they must confront the enablers in their midst who are hiding the kleptocrats' money. While the effort will be politically fraught, a successful campaign would not only limit the maneuvering of adversaries overseas, but also revitalize Western countries' political systems, which are currently awash with dark money and questionable lobbyists.

SQUABBLING, DISTRACTION, AND COMPLACENCY

You only need to look at the behavior of Russian president Vladimir Putin, a maestro of grand corruption, to appreciate the threat that kleptocracy poses to democracy. Having organized the previously chaotic plunder of public resources in his own country during his first years in office, he has since deployed the resulting wealth and influence to co-opt foreign leaders and businesses,¹ pollute the information landscape of democracies,² and even interfere in democratic elections.³ Instead of recognizing the danger and uniting around what they have in common, however, Western politicians continue to squabble with one another.

The current U.S. president is not walking out on Group of Seven (G7) summits or using NATO meetings as an opportunity to attack the leaders of allied nations, but the memories of Donald Trump are still fresh. Moreover, President Biden has managed to create disagreements of his own, such as the nuclear submarine deal with the United Kingdom and Australia that caught France by surprise and cut it out of a major contract.⁴ The French and British leaders further inflamed the situation by exchanging insults and adding the military deal to a broader series of arguments about fish, refugees, trade, and more.⁵

Indeed, the problems caused by Brexit are still poisoning ties between London and the EU as a whole, and Brussels is distracted by internal disputes over the attempts by member states Poland and Hungary to dismantle many of their democratic institutions.⁶ Meanwhile, a simmering disagreement over the Nord Stream 2 pipeline connecting Germany and Russia threatens to capsize relations between Berlin and its friends,⁷ and a feud between NATO allies Turkey and Greece over seabed rights in the Mediterranean



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is sucking in Italy, France, and Germany, among others.⁸ The COVID-19 crisis caused a whole suite of new disagreements on matters such as access to protective equipment, the fulfilment of vaccine contracts, and travel bans.

These disputes are all to the great delight of the West's adversaries, particularly the regimes in Russia and China. Beijing might have stepped in to erase Hong Kong's freedoms regardless of what was happening in the West, but the disjointed response from democracies made its task far easier. Moscow would be much less bold in its demands on Ukraine and other neighbors if Germany were less willing to cut side deals to ensure its preferential access to natural gas,⁹ and if Britain were less prepared to let Kremlin-linked companies raise money in London's capital markets.¹⁰ It is hard to believe that the Russian regime would maintain its flagrant interference in Western elections, send assassins so readily into European countries,¹¹ or shield so many hacking groups if Western countries saw an attack on any one of them as worthy of a genuinely strong response.¹²

The disarray among democracies is not just regrettable, but profoundly foolish.

The governing classes of all Western countries believe in political freedom, free markets, free speech, and honest judicial systems, but as they squabble over minor issues, these core values are currently in retreat on every continent. The opponents of democratic values are well aware of the fault lines in Western politics and exploit them mercilessly. Belarusian dictator Alyaksandr Lukashenka was clearly trying to widen rifts in the EU with his cynical decision to push migrants and refugees from the Middle East toward the borders of Poland, Lithuania, and Latvia.¹³ He can hardly be blamed for thinking that such

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behavior might lead European leaders to cut a deal and overlook his outrages against their supposed values, since that is exactly what they did for Turkey's Recep Tayyip Erdoğan after a previous refugee crisis.¹⁴

This failure of Western countries to recognize a great threat on the horizon is not new. Instead, it is the fruit of a deeply embedded complacency that has grown since the 1980s, when democracy's victory over communism in the Cold War became an increasingly certain prospect, and fears about the Soviet threat receded into the background. Sadly, in their enthusiasm for democracy's triumph, leading thinkers in the West had rather lost their heads.

"The victory of liberalism has occurred primarily in the realm of ideas or consciousness and is as yet incomplete in the real or material world. But there are powerful reasons for believing that it is the ideal that will govern the material world *in the long run*," wrote Francis Fukuyama, then deputy director of the policy planning team at the State Department, in his 1989 article "The End of History?"¹⁵ He continued, "the century that began full of self-confidence in the ultimate triumph of Western liberal democracy seems at its close to be returning full circle to where it started: not to an 'end of ideology' or a convergence between capitalism and socialism, as earlier predicted, but to an unabashed victory of economic and political liberalism."

By the time Fukuyama had expanded that article into a book called *The End of History and the Last Man*, which was published in 1992, the Soviet Union had collapsed, and he had dropped the question mark. This really was the end of history, he said. Liberal ideals had won: events would continue to happen, but history, understood as a battle between ideologies, was over. Fukuyama's argument has been much misunderstood (and much mocked) almost since the moment it was written, but it was a reflection of the optimism of the time. The West's victory was complete, and it had been based on the democracies' economic freedoms, to which political freedom was indissolubly linked: first you got one, and then the other. Economically developing countries would become politically developed in due course.

It is easy to understand this optimism, considering the vitality of democracy and capitalism at the time, compared with the complete stagnation of communism and its associated squalor and misery. But it is harder to forgive leaders' willingness to allow their policies to be entirely based upon such wishful thinking. Seduced by their own argument, Western scholars and leaders thoroughly misread what was happening, and we are all now paying the price.

The first flaw in their thinking was to accept the premise that the Soviet Union was communist at all, rather than just a continuation of the centuries-old tradition of Russian authoritarianism, dressed up in new clothes—and by extension to accept the idea that the end of communism necessarily meant the end of Russian authoritarianism. To think that Russia's political bullies would go quiet because their ruling party had lost a battle of ideas is to totally misunderstand what motivated them: the ideology was in service to the pursuit of power, not the other way around. Moreover, if communism fails, liberalism does not automatically ensue; building a democratic system takes work. The old elites were



The arrival of McDonald's in Moscow in 1990 seemed to represent what many felt was inevitable at the time: the victory of Western liberal capitalism.

never going to voluntarily submit to democratically created laws and an independent judicial system, just because Western observers thought liberalism had won the Cold War. They were always going to seek a way to reconstitute their authority. In fact, in many of the successor states of the Soviet Union, they never lost power at all: communist-era incumbents rebranded themselves as patriotic national leaders and remained in office across most of Central Asia.

The second error committed by thinkers like Fukuyama was to misunderstand much of liberalism's appeal to people who don't live under it, namely by conflating the two liberalisms—economic and political—as if they were inseparable. When he listed the great attractions of the West, the things that helped undermine support for rival systems, they included Sony products, color televisions, and rock music. These are not ideological expressions, but luxury goods. We may think of rock and roll as rebellious and liberating, but if you can't understand the words, it's just good music to dance to. We may appreciate that the internet is an unparalleled mechanism for exchanging ideas across borders, but if someone is only using it to stream pirated movies, why would they care?

No one stopped to ask what was more appealing about the West—multiparty democracy or Pepsi—because it did not seem to occur to anyone that these things could be separated. No one appeared to wonder whether, if a government could provide consumer goods to a sufficient number of people, it would need to provide true freedom at all. We now know the answer to this question, thanks to the rise of authoritarian China, the triumph of Putinism in Russia, and the worrying public support for illiberal leaders in Brazil, Hungary, Poland, and the Philippines.

To claim that communism failed and that the anticommunists won is to misinterpret what happened in the Cold War. Communism as a self-designation for a political system may have disappeared across much of its former range, but so what? Communism, like the monarchism that preceded it, was a screen to allow powerful people to rule unfettered by laws or institutional checks, while pretending they were doing good. The real divide was never between liberalism and communism, but between liberalism and tyranny; between rulers who submit to the law and rulers who demand that the law submit to them. This divide has only become more stark in the years since 1991. Western countries need to stop squabbling over pebbles on the seashore, and instead build common defenses against the looming tsunami that threatens us all.

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WHAT IS KLEPTOCRACY?

Kleptocracy as a system of government emerged when the traditional corruption that has always plagued countries with weak institutions and overpowerful elites met the globalizing financial system of the postwar period. The ability to move stolen money to places like Switzerland or the Bahamas had previously existed, but the money was hard to access once it was there. When London bankers created innovative, cheap, and flexible “offshore” structures that allowed corrupt officials, tax evaders, and mafiosi to manage their distantly held wealth as if it were close at hand, the scale and reach of corruption increased massively.

Kleptocracy is the systematic exploitation of mismatches between national regulations to conceal the theft of entire countries’ public wealth. At home, dictators and oligarchs have transformed their states into looting machines. In the West, these same plunderers enjoy the best legal protection money can buy.

Early examples arose in the former European colonies of sub-Saharan Africa, and among the republics of South America, where tiny groups of elites came to monopolize national wealth and hold it via shell companies, trusts, foundations, or banks in tax havens to safeguard it from any challenge or scrutiny. At the time, the two sides in the Cold War were competing for the affections of these groups as they sought to expand their coalitions of allies, and no one was particularly concerned about whether potential partners were enriching themselves at their own people’s expense.

Western countries prioritized their strategic desire for allies abroad over the integrity of those allies’ governance practices. Western concerns about money laundering only solidified as the Cold War ended, with the creation of the Financial Action Task Force by the G7 in 1989, and even then these concerns were severely circumscribed by politics.

After 1991, Western governments and international financial institutions recommended as a matter of course that postcommunist states open up their economies and allow full capital mobility and financial liberalization as part of their reform process. That advice grew out of an apparently sincere—but coincidentally profitable—belief that the best way to aid former autocracies’ transitions to political and economic liberalism was to integrate them closely with Western economies as quickly as possible. The argument was that although these countries had flaws, one needed to look past their growing pains to the promise of their democratic futures. If we plumbed Russia and its former satellites, as well as China and other countries, into the globalized financial system, our values would flow down the pipes and infuse their societies with liberalizing magic, transforming them into politically open nations.



Russia benefited from global money flows after being welcomed into the G-8 in 1998.

Russia was welcomed into the G7 club of wealthy democracies, which became the “G8,” in 1998, despite being neither wealthy nor especially democratic; countries like Bulgaria and Romania joined the EU in 2007, despite not having conquered their domestic corruption problems; and China joined the World Trade Organization in 2001, despite—among other putative obstacles—the regime’s persistent, systematic, and flagrant theft of others’ intellectual property.¹⁶ The idea was to help financial liberalism along because, once that gained traction, political liberalism would supposedly follow. In reality, the reverse occurred. Russia benefited from global money flows, but the Kremlin took to invading neighboring states, assassinating critics abroad, and rigging elections ever-more aggressively;¹⁷ democratic practices not only struggled to establish themselves in the Balkans but shriveled in other formerly communist members of the EU like Poland and Hungary;¹⁸ and China’s regime supercharged its authoritarianism, persecuting the Uyghurs¹⁹—among other minority groups—and destroying political and civic freedoms in Hong Kong.²⁰

Kleptocrats' hypocrisy is only possible thanks to a matching hypocrisy in Western countries. For every Venezuelan official buying property in Miami, there is a Florida realtor happy to sell it.

The rulers of kleptocracies present their rejection of liberal norms as an ideological matter, and say they are seeking solely to defend or reclaim their sovereignty from a hegemonic global order. But these claims are largely rhetorical. Kleptocrats may divorce themselves from political liberalism, but they embrace the benefits of others' economic liberalism with more enthusiasm than ever. Putin and his cronies take every opportunity to attack the West, but more than half of all Russian household wealth is held "offshore"—via foreign-registered bank accounts, companies, trusts, foundations, or other structures—and that wealth is almost entirely owned by the richest sliver of society.²¹ The Venezuelan elite, despite declaring itself to be the enemy of the U.S.-led order, was for years the single largest foreign source of investment in South Florida real estate.²² Even now, with the Venezuelan economy in near-total collapse, it remains the third-largest source of investment.²³ Super-wealthy Chinese citizens, despite their public displays of patriotism, take up the largest share of "golden visa" programs all across the West, from the United States' EB-5 scheme to Portugal's Residence Permit for Investment or Britain's Tier One Investor Visa.²⁴

As is clear from these examples, however, kleptocrats' hypocrisy is only possible thanks to a matching hypocrisy in Western countries. For every Venezuelan official buying property in Miami, there is a Florida realtor happy to sell it. While Western countries support liberal values publicly, some of their citizens—lawyers, accountants, bankers, company formation agents, and others—have helped people who scorn those values. Without access to the global financial system, kleptocracy would be impossible. Without Western shell companies, trusts, foundations, and partnerships, the theft could not be concealed. Without the assistance of foreign experts, the kleptocrats' business empires could not be maintained. Without the deep pools of capital available in Western financial centers, kleptocrats' companies could not finance their expansion. Kleptocracy has only been perpetuated due to Western countries' willingness to prioritize the self-interest of their own class of enablers above the interests of kleptocracy's victims worldwide.²⁵

Virtually all Western countries bear some blame for this predicament. Britain has allowed kleptocrats from around the world to access the services of the City of London; Canada has sold visas and property to Chinese kleptocrats; banks in the United States have accepted questionable account holders from Latin America by the thousands; Germany is teaming up with Putin to squeeze Eastern European states out of the gas trade; and France has spent decades supporting crooked politicians across its former empire. Only the extremely naïve now believe that political liberalism is going to develop spontaneously alongside economic liberalism in former autocracies.

The Taliban's complete seizure of Afghanistan's government is the most recent example of kleptocracy's considerable power to warp political outcomes. Offshore-enabled kleptocracy—in this case an unholy alliance among drug smugglers, Emirati money launderers, corrupt Afghan officials, and Westerners unable to understand the significance of what they were tolerating—was able to defeat concerted efforts to build a functioning democratic state in Afghanistan.

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"The great challenge to Afghanistan's future isn't the Taliban, or the Pakistani safe havens, or even an incipiently hostile Pakistan. The existential threat to the long-term viability of modern Afghanistan is corruption," said U.S. Marine Corps general John Allen in extremely prescient testimony to a Senate committee, fully seven years before NATO countries effectively conceded defeat.²⁶ "For too long, we've focused our attention on the Taliban as the existential threat to Afghanistan. They are an annoyance compared to the scope and magnitude of corruption with which you must contend."

Kleptocracy destroyed the viability of the state in Afghanistan. Large-scale scandals such as the Kabul Bank affair showed that officials and politicians teamed up with businessmen and offshore bankers to extract as much money from the country as they could.²⁷ And this pattern has repeated itself all over the world, empowering the enemies of the West. This issue is not new: public anger over the corruption of governments that were supported by the United States and its allies helped empower the West's foes in Iran in the 1970s and Cuba in the 1950s, for example. But the problem is reaching crisis proportions. It is no longer fanciful to ask whether kleptocracy is growing so powerful, and the hypocrisy of the enabling Western countries is growing so flagrant, that they threaten the survival of democracy itself. If state institutions become so corrupt that the only way to protest injustice is through violence, democracy is impossible, and even the basic infrastructure of modern civilization is at risk.

Before discussing what we need to do to combat it, we need to analyze where kleptocracy came from. It is only by properly understanding the origins of the system that we can find its vulnerabilities.

THE BIRTH OF OFFSHORE

Offshore finance appeared in the City of London in the 1950s as a direct response to the loss of the British Empire and the resulting contraction of the market London finance houses were serving. This innovation effectively supercharged corruption and allowed it to become the vast problem we see today. However, kleptocracy was an incidental consequence of a far bigger phenomenon: the process whereby a combined Anglo-American financial center broke free of the oversight of authorities on both sides of the Atlantic, allowing major Western corporations to substantially reduce the taxes they paid and the scrutiny they endured, and thus to increase the profits available to their shareholders.²⁸

In the 1950s, given sterling's decline as an international currency and its replacement by the U.S. dollar, London bankers felt increasingly excluded from the center of the global financial system. Their opportunity to undercut Wall Street on dollar-denominated business came from the fact that U.S. regulations restricted the interest rates that U.S.-based companies were permitted to pay. During this period, the dollar was still pegged to gold (one dollar was worth 0.03 ounces of gold), and a whole scaffolding of regulations was in place to ensure that it remained so. The regulations were designed to protect the postwar financial system, which privileged democratic control of capital flows over ease of international investment, and they were quite onerous. London-based bankers were able to dodge those regulations, and to offer more generous interest rates than those permitted in the United States, because they were outside the jurisdiction of U.S. authorities. International clients increasingly began to arrange dollar deals in Britain, in what became known as the "Eurodollar" market.

"A genie has popped out of a bottle and grown in just a few years to an enormous size. He has no nationality, owes allegiance to no one and roams the world looking for the biggest financial rewards. He is extremely useful. But his uncontrolled antics can frustrate the good intentions of lesser creatures, such as central bankers," wrote the *New York Times* in April 1969.²⁹ "The genie is the Eurodollar, a strapping giant, well over \$20-billion strong, baffling to the layman and puzzling even to the experts."

As this genie roamed the world, hunting profits and sniffing out weakness, it gradually overwhelmed any defenses erected against it. All Western countries eventually recognized that there was no point in attempting to regulate capital so long as a giant loophole in the City of London allowed banks to dodge regulations at will. The United States abolished the dollar's peg to gold in 1971, and many other regulations were abandoned in 1980; European countries followed in the ensuing decade. Today all dollars are offshore, and no Western government would dream of trying to impose its will on the global flows of currency.



Newly-minted “democratic” elites from the former Soviet Union were able to plug straight into ready-made financial systems that allowed them to hide their stolen money—and buy high-end property.

The elites of communist countries were aware of this system before the end of the Cold War. One of the first suppliers of dollars to the Eurodollar market was the Soviet-owned Moscow Narodny Bank, much to its profit; the KGB used offshore networks to fund its agents all over the West.³⁰ When communism fell, and the new “democratic” elites were encouraged by their Western advisers to scrap all controls on money flows, they were able to plug straight into a ready-made financial system that allowed them to hide as much stolen money as they wished.

During this period, kleptocracy bloomed and, as anti-Western leaders such as Putin took control in Russia, the offshore system became actively antithetical to the survival of democracy. It was the ability to move money quietly and seamlessly around the world—to dodge taxes, scrutiny, and accountability—that allowed oligarchs to amass vast fortunes and stymie attempts to establish true democracy in the formerly communist countries.

It is the very transnational nature of the offshore system that makes it difficult to fight against, since only a unified policy would prevent the money from simply moving to alternative countries that are still willing to play host. That being so, what is preventing the establishment of such a unified policy?

WHO BENEFITS FROM OFFSHORE AND HOW TO STOP IT

The greatest users of the offshore system are not kleptocrats, but large Western companies, such as the Silicon Valley giants that have become notorious for reducing their tax rates to almost zero via the imaginative use of Irish, Dutch, Bermudan, or other corporate structures.³¹ If one looks at the national wealth held offshore, countries from the Global South lose a far higher proportion than Western nations do. However, in terms of the total volume of money held offshore, a far greater quantity comes from Europe or the United States, thanks to the larger size of their economies.³² It is the owners of this wealth, and their stewards, who regularly block efforts to improve the system.

In the years after the debt crisis of 2007–08, when European countries attempted to create an international system to oblige governments to exchange information on assets owned by the residents of one in the financial system of another, they promised to close the loopholes that had allowed tax evaders and kleptocrats to hide their wealth in the nooks and crannies of the offshore world. Yet efforts to make the system truly global were stymied by opposition in the United States, which already received all the information it needed from abroad. U.S. bankers saw profit in being able to thus undercut foreigners, and they were supported by politicians in states with offshoring industries like South Dakota, Nevada, Florida, and Delaware.³³

Similarly, when lawmakers in the United Kingdom attempted to patch up the vulnerabilities in the Scottish Limited Partnership—a corporate structure long favored by Russian money launderers looking to obscure ownership of their bank accounts—those efforts were torpedoed by opposition from the British Treasury, which was concerned that regulation would undermine the competitiveness of the country's financial institutions by increasing the cost of compliance.³⁴ Efforts to restrict the number of large-denomination banknotes in circulation have tended to founder on opposition from German policymakers, who defend their citizens' right to €200 and €500 bills even though such banknotes have few legitimate uses and are one of the single most important gaps in global strategies to restrict money laundering and international organized crime.³⁵

The lobbyists in London, Frankfurt, or Wilmington, Delaware, are not blocking change out of a desire to protect kleptocrats. They are simply seeking to protect the profits of their clients and the convenience available to their fellow citizens. Kleptocracy may be an accidental side effect of their lobbying efforts, of governments' failure to stand up to major corporations' financial advisers, and of Western countries' failure to recognize the damage they are doing to the rest of the world by failing to act together against a common threat, but it is still a direct consequence of all these factors.



Democracies need to restrict kleptocrats' ability to move money into their countries secretly and dissuade professionals in Western countries from doing business with them.

The good news is that we already know what needs to be done. In order to restrict kleptocrats' ability to move money into our countries secretly, we need to determine who owns companies, who are the beneficiaries of trusts and foundations, and who stands behind the big-ticket purchases of property, fine art, or other high-value assets.

Moreover, in order to restrict the laundering of kleptocratic money through our financial systems, we need to move away from a tick-box approach to compliance and employ the kind of intelligence and subtlety that has long been applied to the tracing of terrorist financiers. If we wish to dissuade professionals in Western countries from moving kleptocratic wealth, we must prosecute the individuals who do so, rather than just the companies for which they work. Handling the proceeds of kleptocracy needs to become both socially toxic and a criminal liability.

The challenge is that these kinds of changes will not just impede kleptocracy, they will also complicate the efforts of wealthy individuals and corporations from Western countries to avoid taxes and regulations. It is not only kleptocrats who seek to influence elections and politicians in Western countries, but also lobbyists for corporations and many wealthy

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people, regardless of the origins of their fortunes. Right now, there is insufficient political pressure behind action against kleptocracy to overcome this resistance. In explaining his consistent failure to get kleptocracy onto his country's political agenda, one Western politician told me that "fighting corruption is everyone's fourth priority, regardless of what the first three priorities are."

When measures are taken to stop kleptocratic cash, they must apply to everyone equally and be enforced equally. This prerequisite is partly for practical reasons: transnational kleptocracy will always identify weaknesses in the global network of regulation and squeeze through them, meaning the whole network must be strengthened if it is to resist infiltration.

There are also political reasons for this principle of equality. Too often in the past, measures to battle dirty cash have been imposed on others by wealthy nations that do not comply themselves. By law, the United States demands information on U.S. taxpayers from foreign states, but it does not reciprocate with information on assets held by those states' citizens in its own financial institutions. Britain demanded that its Caribbean tax havens disclose ownership of their companies, but it did not make the same demands of its European offshore territories. The EU "blacklists" islands in the Pacific for being noncompliant with its principles while ignoring the behavior of Malta, Latvia, Cyprus, and other EU members that do far more to undermine global efforts to rein in questionable money flows.³⁶

Strong democracies may feel that their institutions are sufficiently robust to resist kleptocracy, but that is no reason for complacency. The more kleptocratic wealth infiltrates democratic societies, and the more it corrupts leading individuals, the weaker those societies' institutions become, and the more prone they are to outright subversion.

At present, the West is divided—sometimes over issues of great global significance, such as climate change or how to treat Chinese state-owned technology, and sometimes over issues of little global significance, such as fishing rights in the English Channel. We should all, however, recognize that political liberalism—free elections, open societies, strong institutions—is a value that we share. Defending it, by opposing kleptocracy, is something upon which we should all agree.

To fight kleptocracy effectively, we need to act together and we need a model to show us how we might proceed. Fortunately, we have one in our own recent histories.

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ANTICOMMUNISM AS A MODEL FOR DEMOCRATIC SOLIDARITY

Even before the end of the Second World War, the Western allies recognized that their partnership with the Soviet Union was unlikely to last. Once Germany was defeated, the coalition collapsed almost immediately. Anticommunism—concern about both the intentions and nature of the Kremlin regime—became the glue that held the Western democratic alliance together. These days, anticommunism is widely caricatured as an American overreaction, the kind of thing that led to McCarthyite witch hunts in Hollywood or the CIA-backed coup in Guatemala, where attempts to slightly ameliorate United Fruit's dominance of the economy were equated with the worst kind of Leninism.

"You have to admire the Americans, they do have something to believe in. They really do believe in anticommunism," stated one of the young Brits in the subversive 1963 comedy show *Beyond the Fringe*.

"God, I wish we had a positive faith like that in England, to give us something to hold onto," replied another, to a roar of laughter from the audience.

A year later, a similar—if darker—comic sensibility infused Stanley Kubrick's *Doctor Strangelove*, in which the nice but ineffectual British officer utterly fails to rein in the American general's lethal fantasy about communists polluting America with fluoridated drinking water. "I can no longer sit back and allow communist infiltration, communist indoctrination, communist subversion, and the international communist conspiracy to sap and impurify all of our precious bodily fluids," insists the general, who unilaterally dispatches a bomber wing to unleash Armageddon.

Of course, there's nothing new about Americans being more enthusiastic than Europeans, or about Europeans being snooty about it, but in this case the snootiness was more than usually unreasonable. Anticommunism might have reached its most baroque form in the United States, but the two halves of the Western alliance were united by their determination to preserve their freedoms and their prosperity from the Soviet threat.

In Europe, the driving force behind the creation of NATO in the 1940s was not a hawkish conservative, but the veteran British trade unionist Ernie Bevin who, as a leading figure in the postwar Labour government, worried about Joseph Stalin succeeding where Adolf Hitler had failed. Like his fellow socialist George Orwell before him, Bevin thought that, as a committed democrat, he had more in common with a conservative than he did with the supposed leftists in Moscow. "If we are not careful, and do not unite in our own defense, we shall go down and lose that ideological struggle that is the third world war," said Bevin in 1948.³⁷

Germans did not need to imagine what communism would be like; they could see it in action in their own country even before the Berlin Wall went up in 1961, and concerns about the loss of their still-new democratic advances were felt across the political divide.



The spirit of the West's anticommunist alliance should be repurposed to combat kleptocracy, whatever ideology it dresses itself up in.

All over the continent, in fact, social democrats were as appalled as conservatives by the Kremlin's crushing of opposition in Budapest in 1956 and Prague in 1968. It might seem extraordinary now, but well into the 1960s there were enduring concerns that the Soviet model of development might still overtake the West by providing prosperity to its citizens in a way European and North American countries could not. When Soviet leader Nikita Khrushchev boasted "we will bury you," it did not seem like an idle threat.³⁸

Anticommunism was motivated by concerns not only about economics, but also about values. The desire to protect the freedoms of speech, religion, travel, and assembly, among others was strong. Conservatives, liberals, and socialists might have disliked the details of one another's politics, but for much of the Cold War they recognized that they all, in the most important sense, supported the same cause. Even many Western communists ended up breaking with the Kremlin after the invasions of Hungary and Czechoslovakia. The division was between openness, the rule of law, and liberty on one side and authoritarianism, oppression, and what the Russians call *bespredel*—an untranslatable world that conjures up the worst excesses of tyranny—on the other.

We need to remember why, during the Cold War, almost right across the political spectrum, people were anticommunist even when it was not in their short-term material interest. We need to repurpose that sense of solidarity to oppose the new forms of authoritarianism.

We need to regain this spirit in opposition to kleptocracy. Boris Johnson and Emmanuel Macron may loathe each other, just as many Democrats and Republicans do in the United States, but they should all be able to recognize that they share a belief in free elections, independent courts, an open economy, and respect for minority groups, just as Western countries did during the Cold War.

Furthermore, anticommunism was valuable beyond its function as a glue to hold the alliance together. It helped compel Western nations to live up to the ideals they professed to hold. It was concern over how corruption might be undermining the image of the United States abroad that pushed U.S. politicians into passing the Foreign Corrupt Practices Act in 1977. “While bribes and kickbacks may bolster sales in the short run, the open participation of American firms in such practices can, in the long run, only serve to discredit them and the United States. Ultimately, they create the conditions which bring to power political forces that are no friends of ours, whether a Qaddafi in Libya, or the Communists in Italy,” said Senator Frank Church, a Democrat from Idaho.³⁹

The British Empire was also highly susceptible to the pressure of public opinion. It was concern over how British policies appeared to the rest of the world—and concern that the communists might look better—that led Prime Minister Harold MacMillan to distance London from the racist politics of South Africa in a speech to the parliament in Cape Town in 1960. “The struggle is joined, and it is a struggle for the minds of men,” he said. Although he did not convince the politicians to whom he spoke, and apartheid survived for another three decades, he did help unleash a liberalizing wave across the rest of Britain’s remaining and former possessions that destroyed the imperialist project.⁴⁰

Similarly, concerns over the electoral appeal of communist parties in European countries including Italy and France helped push their governments to adopt more generous policies than they otherwise would have done. The desire to be *seen* as better than the communists forced Western countries to actually *become* better, in a way they otherwise would not have been.

Once again, Western democracies are facing confident, resourceful opponents who—as Beijing’s response to the COVID-19 crisis⁴¹ and the Kremlin’s mastery of modern disinformation⁴² demonstrate—often appear quite capable of facing the most pressing issues of the age. The post-1991 decades bred a complacency among democratic policymakers, who had come to believe that making money and doing the right thing were equivalent. As a result, few Western countries today have taken steps to defend their economies, societies, or political systems from the 21st-century equivalent of communist infiltration, perhaps because their leaders are reluctant to believe that victory in the Cold War was in some ways a mirage, and that the world is still plagued by tyrants who are willing and able to do anything to expand their own power.

We need to remember why, during the Cold War, almost right across the political spectrum, people were anticommunist even when it was not in their short-term material interest. We need to repurpose that sense of solidarity to oppose the new forms of authoritarianism, whatever ideology it dresses itself up in, and however much money the

We already know that kleptocracy is both a law enforcement and a human rights issue, but above all it is a national security issue—and one that is insufficiently recognized.

effort costs our own societies. The urgency now is even greater, because democracies are no longer facing autocracies across well-defended national borders, as they were in the Cold War. The threats to democracy's integrity are right here at home, and they will need to be overcome both in the West and in other democratic states around the world. But when they are overcome, we will have rebuilt our political, legal, and economic systems on surer foundations.

Efforts to require the transparency of property ownership, for example, will not just prevent kleptocrats from buying influence in Western political systems. They will also stop the kind of dark money-funded lobbying that has long helped to delay initiatives to restrict tobacco consumption, curb carbon pollution, and adopt other policy changes in the public interest that could prove costly to certain powerful people. Prosecution of the crooked enablers who allow kleptocrats to slip their money into Western countries would also deter the accountants and lawyers who have facilitated other forms of financial fraud that afflict so many countries at present. Moreover, stopping money laundering by kleptocratic regimes will simultaneously block the movement of dirty cash by mafia groups. In essence, imposing cleanliness on our financial systems will keep our political systems safe from both external and internal threats.

Given these circumstances and considerations, the comparison with anticommunism is highly relevant. We already know that kleptocracy is both a law enforcement and a human rights issue, but above all it is a national security issue—and one that is insufficiently recognized. During the Cold War, politicians from all mainstream parties in all Western countries understood that opposing communists' infiltration of their societies was in their collective interest. Kleptocracy may not boast of the same world-conquering intentions that communism did, but that merely makes it more insidious. Its takeover is accomplished by stealth. While some German companies may do well from the gas supplies arriving via Nord Stream 2, the rest of the West will suffer from the cash injection it gives to the Kremlin; while lawyers in Cyprus or Malta may benefit from the sale of golden passports, everyone else loses out as kleptocrats move through Europe unimpeded; and while financiers in the City of London may profit from raising capital for oligarchs, the rest of the democratic world feels the impact when that money is used to subvert elections.

If U.S. policymakers adopt a strategic opposition to kleptocracy with the same zeal that characterized their anticommunism, they may face a little mockery from smug Europeans. But they will also reinvigorate the concept of the West and show that its values are worth fighting for, and Europeans will join them in their struggle.

Indeed, a willingness to strike a blow for democracy and against kleptocracy by shining light into the dark corners of the world's financial systems, giving dirty money no place to hide, should be the price of entry for a new alliance of democratic nations that extends well beyond the historical boundaries of the anticommunist West. If we continue to overlook the flow of questionable wealth into advanced economies, and the massive theft of such wealth from the citizens of origin states, we will be complicit in the ultimate demise of open societies everywhere.

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