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Five myths about kleptocracy

by Natalie Duffy and Nate Sibley

Every country suffers from corruption, but not every country is a kleptocracy. Kleptocracy, or “rule by thieves,” arises when a country’s elite begin to systematically steal from public funds on a vast scale. They do so by undermining democracy and the legal system, gaining control over vital economic assets (usually the banking and natural-resource sectors), and ultimately amassing unimaginable wealth. As political science professor Karen Dawisha recently [put it](#), kleptocrats manage to nationalize risk while privatizing profits. Examples are as diverse as Russia’s oligarchs under President Vladimir Putin, China’s sprawling Communist Party and South Sudan’s violently failed state. Could the United States join these ranks? To answer that question, we need to dispel some common myths.

Myth No. 1

Kleptocracies exist mostly in the developing world.

The word “kleptocracy” often conjures Cold War imagery of despotic tyrants in poor, faraway places. And it is true that many of the world’s [most corrupt countries](#) are in Africa, Asia and the Middle East.

But a kleptocracy is no longer a corrupt political system in a few poor nations: It is a sophisticated global network whose members include world leaders and powerful business people. Kleptocrats send money around the world with the click of a button, aided by unscrupulous professionals with the expertise to launder it through anonymous offshore companies and secure it in luxury assets in the West. According to the International Monetary Fund, as much as [5 percent](#) of the world’s gross domestic product is laundered money, and only 1 percent of it is ever spotted. Illicit cross-border financial flows have been [estimated](#) at \$1 trillion to \$1.6 trillion per year. A [2012 study](#) put the total private wealth held offshore at up to \$32 trillion and suggested that, since the 1970s, elites from 139 low-to-middle-income countries had parked as much as \$9.3 trillion in offshore accounts.

Some of the money is hidden right here. As the driving force behind global economic reform for the past three decades, the United States has played an important role in the rise of the globalized kleptocrat. America has become [one of the leading secrecy jurisdictions](#) . Delaware, South Dakota, Wyoming and other states do not require disclosure of corporate ownership, meaning that kleptocrats aren't parking their assets just in exotic locations like the Cayman Islands or the British Virgin Islands anymore.

U.S. real estate then provides an attractive conduit for securing and legitimizing the laundered funds. A New York Times [investigation](#) revealed that, of the properties purchased for more than \$5 million in Manhattan in 2014, more than half were bought by anonymous companies that disguised the buyers' identities.

Myth No. 2

Kleptocracies are strong.

Today, some of the most powerful countries in the world are kleptocracies. Russia, for example, currently seems to be dictating global affairs. China, another classic, is the second-largest economy in the world.

Kleptocracy doesn't necessarily make governments weak. But the skewed priorities of greedy autocratic rulers and the looting of resources that should be used for public services mean that the countries are much weaker than they should be. Russia, for instance, can't afford to honor its obligations to [impoverished pensioners](#) , but there is apparently plenty of money available for Putin's former judo partner to build a bridge to occupied Crimea and for a new Kremlin propaganda channel in France.

A 2016 [report](#) showed that developing countries collectively had lost \$16.3 trillion to illicit leakages since 1980. While their people struggled, starved and died, exported corruption effectively made these governments net creditors to the world economy. In such circumstances, it is hardly surprising that people begin to see government as a criminal racket instead of a legitimate provider of public services. In extreme cases where elites have given up any pretense of government, this includes security: It is no coincidence that the world's most corrupt countries are also the most internally divided and violent. In the long run, then, kleptocracy doesn't just weaken governments. It destroys them.

Myth No. 3

The United States is already a kleptocracy.

"We're living in a kleptocracy," Salon [claimed in 2015](#) . "America robs from its poor — while its infrastructure crumbles." According to a 2015 Gallup poll, [75 percent of Americans](#) believed

corruption to be widespread in their government, a sentiment Donald Trump capitalized on with his promise to “[drain the swamp](#).”

Few would argue that corruption doesn't exist in the United States, but fewer seriously believe that it is the sole purpose of their government. Unlike the average Russian, Americans haven't watched their president's friends loot 5 percent of GDP in the past decade. Unlike one-quarter of Ukrainians, the average American hasn't had to [pay a bribe](#) to get officials to do their jobs. And unlike the Chinese, Americans don't feel impelled to send [trillions of dollars](#) overseas illegally.

The United States has strong constitutional safeguards that guarantee democratic participation, free speech and, most important, rule of law. Prosecutors wield a [robust set of mechanisms](#) to address official corruption when it does occur. The United States is far from perfect, but despite the uproar on alternative and social media, it is not a kleptocracy.

Myth No. 4

American institutions will shield us from kleptocracy.

In the wake of Trump's election, major news outlets ran pieces on what U.S. institutions could do to protect the country from collapse. Vox [told readers](#), “It's now on America's institutions — and the Republican Party — to check Donald Trump.” Slate [argued that](#) professional bureaucrats could slow Trump's progress. Writing in the New York Times, Steven Levitsky and Daniel Ziblatt [reassured that](#) “no democracy as rich or as established as America's ever has” collapsed (though they said there's reason to worry).

Unfortunately, key political, financial and cultural institutions have yet to be firewalled against new methods of interference and infiltration by bad actors. In Washington, well-remunerated K Street firms exploit [weaknesses in foreign-lobbying laws](#) to advance the interests of violent kleptocracies on the Hill (the Kremlin is [currently hiring](#) for \$30 million to \$50 million per year). In the financial world, major U.S. banks are routinely implicated in money laundering scandals and fined huge sums. Even Hollywood is not immune: “[The Wolf of Wall Street](#)” was allegedly produced partly with cash stolen from Malaysia's 1MDB development fund.

We are making some progress. The Justice Department's Kleptocracy Asset Recovery Initiative has [frozen \\$2.8 billion](#) in 28 cases since 2010. In July, the Treasury Department announced [geographic targeting orders](#) that make it impossible to complete anonymous all-cash purchases of high-value real estate in New York, Miami and four other key jurisdictions. And through the Magnitsky Act and other sanctions regimes, the U.S. government has made life so difficult for some kleptocrats that relief is consistently cited as a major Kremlin priority. At the moment, the United States is simultaneously the world's leading enabler and opponent of kleptocracy.

Myth No. 5

Donald Trump is setting himself up to rule as a kleptocrat.

Alarm bells on this subject began ringing soon after Trump was elected. The Washington Post's Plum Line blog [warned of](#) "the coming Trump kleptocracy." New York magazine [wrote that](#) "Trump's kleptocracy is so astounding it already feels like old news."

There are reasons for concern. Trump's personality-based populism, his refusal to release his tax returns or place his assets in a blind trust, the prominent roles played by his family during the transition, financial ties between some members of his inner circle and Russia, and his own stance toward the Kremlin have all raised questions about how he intends to conduct himself in office. On the other hand, Trump campaigned on the principle that his enormous personal wealth would insulate him from financial temptations, which made sense to the millions of Americans who voted for him to "drain the swamp."

Ultimately, only Trump knows what his plans for the highest office are. But U.S. constitutional safeguards and institutions are significantly more robust than those in countries where corruption has taken over. If Trump really wants to establish a kleptocracy, there are easier countries to do it in.

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