

Remarks by Charles Davidson:

Combating Kleptocracy with Incorporation Transparency

Acting Chairman Whitehouse, Co-Chairman Smith, and Members of the Helsinki Commission, thank you for inviting me to testify today. I would also like to thank Paul Massaro, staff of the Commission, for helping to arrange this important discussion. My name is Charles Davidson and I am the Executive Director of the Hudson Institute's Kleptocracy Initiative, which researches how authoritarian regimes and globalized corruption threaten democracy, capitalism, and security.

1 — Kleptocracy: The Business Model of 21st Century Authoritarianism

Today, the most dangerous threat to our national security is the aggression of authoritarian regimes that actively seek to undermine our freedom and democracy, and to export authoritarianism into the OSCE region and around the globe. And let us not be mistaken: What is at stake is the survival of our civilization.

These regimes have already upended the post World War II international order via invasion and violation of treaties, perverted a rules-based global system of relatively fair economic exchange via intellectual property theft and corrosive business practices, and attacked our government's computer systems. And these regimes are sharing best practices and increasingly behaving like an axis of evil.

The most important thing I want to bring to our attention today: It is essential to understand that these authoritarian regimes have ALL adopted the business model of 21st century authoritarianism, a model whereby those who govern, usually a very small group, family, or even individual, loot their

own country, and store the proceeds in free and democratic nations such as ours, whose rule of law and reliable institutions serve to protect their ill-gotten gains. That business model = kleptocracy.

21st century authoritarianism cannot be dissociated from kleptocracy. They have tied the knot. Where we find one, we find the other. And the situation is serious. Authoritarian kleptocracy has been growing, while freedom and democracy has been in recession.

But the authoritarian/kleptocratic model has an obvious **vulnerability**. Given that kleptocratic loot is stored within our shores, we have huge leverage over this business model.

The problem is, we often don't know where they've stored their loot, due to the ease with which one can establish anonymity of ownership.

And we, the United States of America, are the easiest and safest place to establish anonymity of ownership. For a superb summary of this disgraceful situation, I recommend Kara Scannell & Vanessa Houlder's piece in the Financial Times published May 8th, 2016, "US tax havens: The new Switzerland".

As a general proposition, as an overarching challenge our society faces, as a fundamental existential issue for our civilization as we know it, it should be obvious that we cannot push back and reverse the authoritarian surge while being the bankers, lawyers, yacht builders, luxury lifestyle purveyors, to those who seek the destruction of freedom and democracy.

2 — Kleptocracy: A Vector of Political Decay

How is kleptocracy undermining our freedom and democracy, promoting

political decay?

When the kleptocrats come here, they bring along their values, which are not ours. We were naive. We thought their offspring would go to school here and become freedom and democracy lovers. That hasn't happened.

Instead, the kleptocratic life-juice of only valuing money and power has perverted our system. Kleptocratic regimes have become increasingly adept at purchasing many of the less morally vigilant members of our "elites". (In Europe this is often referred to as "schroederization".) And this pimping is often done surreptitiously, via obscure ownership structures where beneficial ownership is not known, providing among other things plausible deniability.

3 — Kleptocracy: We Incentivize it

As I said in testimony last December to the House's Subcommittee on Europe, Eurasia, and Emerging Threats:

"Providing a safe haven for the proceeds of corruption establishes an incentive for corrupt practices. In my view this question of incentivization has been neglected, and is key to understanding the overall political challenge faced in terms of reform."

Anonymous companies, the asset protection they provide assured by our rule of law and reliable institutions, incentivizes kleptocracy. We must take away the punch bowl.

And we must be aware of the struggles of those trying to escape a kleptocratic past, and the role played by our European allies.

Ben Judah, in "How Offshore Finance Sank Western Soft Power" that appeared in *The American Interest* May 8th 2014, quotes Daria Kaleniuk, head of Kiev's

Anti-Corruption Action Centre: "What we found was that the money stolen in Ukraine was heading into British and European tax havens and hidden using shell companies inside the European Union. This was very uncomfortable to find out. What we felt is the Western elites were being hypocritical to us — preaching anti-corruption but allowing this..."

Judah quotes Mustafa Nayem, one of the leaders of the Maidan revolution: "Why do they only now investigate the hidden fortunes that were stolen and hidden in Austria and in Switzerland? We told the Europeans and we told their embassies a hundred times this money was stolen and hidden in their countries. And nothing happened. Now that the regime has fallen, they suddenly — in a matter of days — can reveal the stolen money. But why did they not do this before? They are guilty — guilty of leaving us alone with these thieves. They are guilty of allowing them to plunder us."

As per my above referenced Congressional testimony, "As Western diplomats struggled to impress on Kyiv's politicians the value of the rule of law, Ukrainian elites were stashing wealth in the West. This happens across Eurasia, where authoritarian elites now treat London, New York, and other Western jurisdictions as corruption services centers."

And what of the demand for better government and democracy in such a situation? As Francis Fukuyama said introducing Senator Carl Levin at a conference organized by Global Financial Integrity in 2008: "There can be no demand for democracy if all the rich people, if all the elites in the country, can manage to protect their own private fortunes, they have no reason to work with other people to resist the government, to demand democracy, to demand accountable government. There's no demand for less corrupt government because everybody has taken care of themselves as an individual and it delegitimizes democracy...anything that can be done to reduce the ability of people to transfer assets and to avoid the sovereignty of the state, it

seems to me, is very important.”

As we know from the difficulties of asset recovery efforts, including our Department of Justice’s Kleptocracy Asset Recovery Initiative, it is often very difficult to find assets hidden via anonymous companies.

We must stop incentivizing corrupt and kleptocratic practices.

4 — Kleptocracy: Reform, or Submit to Tyranny

As described, the anonymous ownership of assets is a dirty secret behind the rise of authoritarianism.

We must Dramatically Curtail Secrecy in the Ownership of Assets:

— Abolish the Anonymous Ownership of Assets in the United States of America

— Pressure Other Jurisdictions to do The Same