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OFFSHORE, NATIONAL SECURITY AND BRITAIN'S ROLE

editorial by
Jack Blum, Charles Davidson, and Ben Judah

It is becoming increasingly clear that the offshore system is a source of serious and intensifying threats to the national security of the liberal democracies. This edition of Tax Justice Focus *explores these threats and how we can best tackle them.*

The British public is used to being warned of systemic threats: terrorism, weapons of mass destruction, Russian espionage, even climate change have been front and centre of the national debate over the preceding decades. However, the British public is much less used to a sustained presentation of the acute risks posed to national security by ungoverned spaces in the financial sector that is supposed to be the country's competitive advantage. This special issue of the *Tax Justice Focus* aims to fill this void in the public's understanding of these threats from the murky world of offshore finance.

Corruption, quite simply, is not small beer. Illicit finance, the proceeds of crime and

Right-wing populism funded by offshore interests has been one of the most influential political tendencies in both Britain and the US for forty years. Perhaps it has peaked in the careers of Donald Trump and Boris Johnson.

Guest Editors: Jack Blum. Charles Davidson and Ben Judah
Managing Editor: Dan Hind
Contributing Editor: John Christensen
Design and layout: www.tabd.co.uk
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corruption, is today a central feature of the world economy. The International Monetary Fund has estimated that money laundering accounts for between 2% to 5% of the world's GDP. The ease with which criminal and corrupt money can move through multiple jurisdictions is the result of decades of failed regulation on both sides of the Atlantic, which has created a nexus of anonymous shell companies, secrecy jurisdictions and tax havens that come together to form the world of offshore finance.

Ilicit finance is emphatically not something that happens 'over there'. Some estimates put the share of the UK's GDP derived from money laundering as high as 15%.[1] London is both one of the critical nodes of the world financial system and a gateway to the offshore world: with countless financial and legal service providers ready to shuttle their clients' wealth to secrecy jurisdictions under British sovereignty like the British Virgin Islands or the Cayman Islands which have become hubs of illegal activity. All this has helped London become a favoured location for oligarchs, whose needs and wants have become a staple of the professional services sector. Since David Cameron's premiership, there has been growing concern in both London and Washington over growing Kremlin influence in the UK, suspicious murders and the connections of British politicians current and former to foreign autocrats. It has become a widely held view on both sides of the Atlantic and on both sides of the political divide that the UK has failed to tackle both the threat of money laundering and the political and security threats that come with it.

The following essays explore why failure has taken place and what can be done to remedy it. The first lens we use is structural. How does one situate the scale of illicit finance in an understanding of global financial flows? In our first essay **Yakov Feygin**, the Associate Director on the Future of Capitalism at the Berggruen Institute, takes a bird's eye view of the system, exploring the relationship between the fundamental structures of global finance, the role of the dollar and the place of offshore finance as an enabler of corruption and authoritarianism. This is the international system in which Britain, the City of London and UK's global territories find themselves.

What are the consequences for democracies existing in such an environment? In our second essay **Camila Vergara,** a Postdoctoral Research Scholar at the Eric H. Holder Jr. Initiative for Civil and Political Rights at Columbia Law School, investigates the rise of transnational oligarchic power and the struggle to protect domestic national security when the offshore system both facilitates oligarchic power within democratic societies and offers them enormous room for manoeuvre for malign influence. Vergara offers a framework to understand Britain's backdrop of news stories concerning current and former politicians' links to kleptocrats and authoritarian powers.

These are clearly threats to democracy: but what frame should progressives use when highlighting these dangers? In our third essay, **Grace Blakeley**, a staff writer at *Tribune* magazine and author most recently of *The Corona Crash: How The Pandemic Will Change Capitalism,* critiques the concept of national security from a left perspective and suggests a new way of conceptualizing these threats more in tune with progressive language. Blakeley sets out how progressives concerned by the rise of kleptocracy can reach new audiences.

"Ilicit finance is emphatically not something that happens 'over there'."

In our fourth essay, moving onto solutions, **Nicholas Shaxson**, author most recently of *The Finance Curse: How Global Finance Is Making Us All Poorer*, argues that if we are to look to the US, EU and UK to use their hegemonic power to dismantle this system, they need to overturn the power of their own financial sectors. The way to do that is to harness national self-interest in each place, by showing how oversized financial centres harm the countries that host them. This harm is found in many spheres: economic, political, democratic, cultural — and in the domain of national security. And in our final essay **Edoardo Saravalle**, formerly of the Centre for New American Security and the Senate Banking Committee, makes the case for the United States promoting the transformation of privately controlled financial nodes like SWIFT into internationally controlled financial infrastructures to ensure that public goals, not private interests, set the agenda. Both essays set out what could be real foreign policy goals for a government determined to reshape global finance for the better.

As the editors of this series, we want to take this opportunity to contribute one final component to this discussion: the question of law enforcement. The sheer scale of illicit financial flows in the global system shows that the existing regime of international agreements and cooperating bodies has been largely toothless. The Financial Action Task Force (FATF) has been in existence since 1989 and has had powers to issue a blacklist and a greylist since 2000. The United Nations Convention Against Corruption (UNCAC) is now in force in all but a handful of countries. But despite this the ability to stem these financial flows —

1 Ali Alkaabi, Adrian Mccullagh, George Mohay, Nicholas Chantler, 'A Comparative Analysis of the Extent of Money Laundering in Australia, UAE, UK and the USA,' *SSRN Electronic Journal*, January, 2010.

"The sheer scale of illicit financial flows in the global system shows that the existing regime of international agreements and cooperating bodies has been largely toothless."

illustrated simply by the vast sums moving within and between national jurisdictions — remains lamentable and lacklustre. There is not so much a lack of tools as a lack of willingness to use them.

In Britain and the United States the understaffing of the bodies charged with defending the financial system is a threat in and of itself. For example, in Washington the key Financial Crimes Enforcement Network (FinCEN) has only around 300 staff and a budget of just $118m a year. Despite the vital role FinCEN plays its annual funding amounts to roughly the purchase cost of one F-35 jet. In the UK, the National Crime Agency, which deals with the full range of serious and organised crime, has less than 5,000 staff and only around 1,250 of them are investigators. Companies House, the body charged with registration of corporate entities in the UK employs less than 1,000 staff despite over 4m companies being incorporated in Britain, with a further 500,000 new registrations every year.

Britain has a unique role to play in making finance safe for democracy. It is responsible not only for the City of London, which still competes with Wall Street as the capital of global finance, but also for Crown Dependencies and Overseas Territories such as the Isle of Man and the British Virgin Islands, which provide invaluable niche services to both licit and illicit actors. Should the UK choose to embrace a leadership role by enforcing the rules already on its books and staffing up adequately to meet the risk of financial insecurity it could achieve significant impact in cleaning up and closing down the loopholes of the offshore system. However, that same centrality to global finance also gives Britain a unique ability to be a bad actor. This is why it is in the interests of all the democracies that post-Brexit Britain brings meaningful transparency to both the metropolitan centre and the offshore periphery. A lively and robust debate in Britain about the security and democratic threats, not just lost tax revenue, posed by the offshore world is the first line of defense against such an eventuality. We hope this special issue of the *Tax Justice Focus* can help start it.

Jack Blum is a leading legal authority on money laundering who has helped investigate many major white collar crimes including the Bank of Credit and Commerce International (BCCI) collapse and the Lockheed overseas bribes scandal. Charles Davidson is editor and publisher of the Offshore Initiative (www.offshore-initiative.com) and was Executive Director of the Kleptocracy Initiative at Hudson Institute between 2014 and 2018. Ben Judah is the author of This Is London *and* Fragile Empire.

THE FINANCIAL INFRASTRUCTURE OF CORRUPTION

feature

The parallels between 'tax optimisation' and 'corruption' are so strong because they rely on the same mechanisms to get the job done. ***Yakov Feygin*** *argues that the US could use its central position in the monetary system to address both.*

Yakov Feygin

National security practitioners have become increasingly aware of the threat of 'Kleptocratic regimes' and 'strategic corruption' to the internal politics of liberal-democratic polities. In the classical version of this narrative, authoritarian regimes exploit global financial and business networks to penetrate the internal politics of democratic societies and secure their domestic rule by exploiting the self-interest of particular business groups.[1] Some have even suggested that foreign 'dark money' might enter the democratic process by supporting particular candidates.[2] The common thread that unites these views is that dark money is seen as a foreign policy problem and thus related to either extra-systemic actors or foreign competitors that exploit legitimate systems.

After successfully chairing Donald Trump's 2016 election campaign Paul Manafort went on to be successfully convicted for tax evasion and money laundering two years later.

Viewing this issue as only the result of 'corruption' or as an aspect of power politics alone is flawed. The dangers highlighted above are not the result of aberrations in an otherwise functioning system that can be patched by some legal reforms. Rather they are a feature of how the international financial system has evolved to serve the world's most powerful, whether they are kleptocrats in the developing world or reputable fortune 500 companies. The global financial infrastructure, as it has evolved in the post-war period, requires vast pools of offshore dollar accounts, so-called Eurodollars. This credit money, 'issued at the book maker's pen' forms the basis for global payments and currency exchange.[3] Within these money pools, often held in tax havens with opaque ownership law, it is impossible to distinguish kleptocratic activity 'threats' from 'legitimate tax optimisation' by multinational corporations and high net worth individuals. Moreover, without these wholesale money market 'deposits,' the global monetary system would find itself short of liquidity as even formal bank institutions are deeply intertwined with offshore finance.[4]

Instead of viewing these activities as national security threats created by the

1 Ben Freeman, 'America's laws have always left it vulnerable to foreign influence', *Washington Post, October 19, 2019.*

2 Joseph Biden and Michael Carpenter, 'Foreign dark money is threatening American democracy', *Politico, November 27, 2018*

3 Milton Friedman, 'The Euro-Dollar Market: Some First Principles', Federal Reserve Bank of St. Louis, September, 1971

4 Iñaki Aldasoro, Wenqian and Esti Kemp, 'Cross-border links between banks and non-bank financial institutions, *BIS Quaterly Review*, September 2020; Marco Cipriani and Julia Gouny, 'The Eurodollar Market in the United States', *Liberty Street Economics*, Federal Reserve Bank of New York, May 27, 2015

Figure 1: An Anatomy of a Eurodollar Placement [Marcia Stigum and Anthony Crescenzi, Stigum's Money Market, 4E, 4th Edition (New York: McGraw-Hill Education, 2007), 217.]

Bank of America London

(Eurodollar) time deposit, Crédit Lyonnais London +20MM New York Office dollar account -20MM	

Crédit Lyonnais London

Deposit, Morgan N.Y. +20MM	Time deposit, Bank of America London +20MM

Bank of America New York

Reserves -20MM	London office dollar account -20MM

JP Morgan Chase New York

Reserves +20MM	Deposits, Crédit Lyonnais London +20MM

New York Fed

	Reserves, Bank of America -20MM Reserves, Morgan +20MM

NB MM represents millions

exploitation of a legitimate financing system by illegitimate actors, any attempt to curtail these activities must be done in the context of a radical reform of the global monetary order. This is not simply an academic distinction. If one sees kleptocracy as simply a form of corruption, the solutions presented are traditional anti-corruption measures focused on transparency and the strengthening of civil society. However, if we accept a systemic perspective that incorporates the centrality of offshore cash pools to the 'dollar system,' then we must take a broader perspective that calls for wholesale monetary reform and the mobilisation of U.S. monetary power, specifically to move toward a 'systemic' reform of global capitalism itself.

The formal definition of a 'Eurodollar' is a dollar deposit in a non-American domiciled banking institution. As such, Eurodollars are pure credit instruments. They have no formal backing at the United States Federal Reserve. That means that unlike onshore credit money, Eurodollars have no explicit guarantee for their par value. As such, Eurodollars are secured via a set of inter-bank funding agreements benchmarked by the London Interbank Overnight Rate (LIBOR). Eurodollar deposits emerge when non-American domiciled firms book a dollar inflow in non-American domiciled banks. These banks then ultimately lend these deposits to other financial institutions that require immediate dollar funding and expect a dollar-denominated inflow at some future period. The creation of a Eurodollar deposit is represented in Figure 1 through a set of stylised balance sheets.

As we can see, Eurodollars are initially funded through an interbank transaction with a U.S. domiciled bank and its foreign branch. From the point of view of the onshore money system, no actual dollars have left the United States. However, credit has now been issued that can ultimately be multiplied many times over to create a system of dollar funding.

Moreover, the term Eurodollar is often used not only to describe the specific type of money market instrument described above, but also the larger global market for wholesale dollar funding. This market and its instruments—Money Market Fund Shares, Repurchase Agreements (Repos), and asset-backed commercial paper—form the backbone of the global 'shadow banking system.' One can think of shadow banking as the expansion of the category of banking beyond registered bank holding companies. There is a robust academic debate as to what counts for deposits within this system, but a general consensus is that the key to the shadow banking system's operation are large institutional cash pools, often held in offshore banking jurisdictions.[5] These pools of Eurodollar deposits - essentially credit entries - require cash inflows to validate holdings. As such, an army of money managers has arisen to attempt to find returns for these large, global pools of cash.[6]

5 Steffen Murau and Tobia Pforr, 'Private Debt as Shadow Money: Conceptual Criteria, Empirical Evaluation and Implication for Financial Stability', Private Debt Project, May, 2020

> *"The global financial infrastructure, as it has evolved in the post-war period, requires vast pools of offshore dollar accounts, so-called Eurodollars."*

The Eurodollar system is thus 'hybrid,' insofar as dollar denomination depends on a state action—the U.S.-issued dollar—but is intermediated by and created through private credit. This is not an accidental arrangement but a set of political choices.[7] A popular legend holds that the offshore dollar market was created when the USSR, fearful of seizure, wanted to hold its dollar deposits outside of American banks. More realistically, the Eurodollar market seems to have arisen through intercorporate 'swaps' of currency liabilities designed to get around Bretton Woods-era capital controls. These swaps evolved into markets and eventually became the source of funding for offshore issued 'Eurobonds.'[8] In the 1970s, as the

6 Zoltan Poszar, 'Shadow Banking: The Money View', *Office of Financial Research Working Paper, July 2, 2014; Daniela Gabor,* 'Critical macro-finance: A theoretical lens', *Finance and Society,* 2020

7 Daniela Gabor, *op. cit.*

8 Perry Mehrling, *The New Lombard Street,* Princeton University Press, 2010

"The parallels between 'tax optimisation' and 'corruption' are so strong that the illegality of the latter is only present because in the United States, we have made tax optimisation legal and acceptable de jure."

Bretton Woods system began to collapse, regulators began to give up on efforts to coordinate to control this system and financial globalisation was born.[9] More importantly, a whole industry of consultants, often with the encouragement of major governments, sprang up to offer newly decolonised states—often with common law systems—roadmaps to becoming offshore financial centers.[10]

The existence of shadow banking and wholesale Eurodollar financing makes it increasingly difficult to draw specific borders between national, and global financial systems and between legitimate transactions and kleptocratic activities and 'strategic corruption.' Disclosures of offshore structures such as the Panama Papers reveal a mix of both obviously political corruption and 'normal' corporate tax optimisation. An anatomy of several transactions demonstrates just how similar and indistinguishable both activities are.

Take the 'double Irish' tax structure favored by pharmaceutical and technology companies. Company A in California develops a piece of software. It sells the patent for this software to a wholly-owned subsidiary in the Cayman Islands for one dollar. That subsidiary then revalues the patent to 100 dollars and pays no taxes on that re-evaluation. Next, the Cayman company 'sells' right to the patent to an Irish subsidiary of Company A, which markets and sells the software in Europe. The Irish company thus pays low taxes on European sales and renumerates its American parent through licensing fees, paid in dollars, to the Caymans subsidiary. Note that at this point, the Irish subsidiary has entered the Eurodollar market to transform its Euro receipts into dollar deposits and has then transferred those deposits to a bank in the Cayman Islands. This bank can now engage in Eurodollar funding with its dollar deposit. Meanwhile, the Cayman company can lend to the parent firm at a zero-interest rate to bring profits home or can purchase the parent firm's assets. Taxes have been minimised with no violation of the law.[11]

Now, let us examine a 'kleptocratic transaction' that uses a similar set of channels. A politically exposed person (PEP) in Country A wishes to benefit from a privatisation scheme of a state-owned company. To do this, the PEP sets up a company in Cyprus which has a tax treaty with Country A. The individual then swaps shares in the worthless Cyprus company owned by him and the valuable firm in Country A. Thus, the Country A firm's profits are now captured, and it is effectively privatised. The firm in Cyprus then sells its shares, in dollars, to another firm owned by the PEP in the Cayman Islands, thereby eliminating any tax liability and creating a dollar deposit in the Cayman Islands. Again, these chains of firms have entered Eurodollar markets to both convert cash flows from Country A to dollars, and to then deposit these receipts. The PEP can now use his dollar deposit to purchase property in London or to make investments in an American PR campaign. Again, a dollar deposit is now created within the Caymans and, with the likely exception of laws in Country A being broken, nothing illegal has happened.

The parallels between 'tax optimisation' and 'corruption' are so strong that the illegality of the latter is only present because in the United States, we have made tax optimisation legal and acceptable *de jure*. Moreover, both of these schemes have created Eurodollar deposits that can then be lent and borrowed in the global dollar system to fund trade, investments, and capital goods that are completely unrelated to these transactions. The incentives for not tampering with this existing system are thus quite high.

The offshore financial system was created in the wake of the collapse of the Bretton Woods System as a means to avoid high-cost political decisions while allowing an increasingly globalised financial system to serve the needs of a global elite. While this elite was largely in line with the interest of the United States, the national security establishment has paid little attention to the misery that the offshore world has caused due to lost tax revenue, illegal privatisation of public assets, and financial instability. Now, however, that these structures are not only used by multinational corporations but also by state-related actors that might threaten American sovereignty, the national security and foreign policy establishment has woken up.

The tools it has offered us to combat these problems are a mix of relatively effective measures to boost transparency and some half measures that at best will try to restrict access to the offshore world to legitimate actors. Indeed, beneficial ownership

"The existence of shadow banking and wholesale Eurodollar financing makes it increasingly difficult to draw specific borders between national, and global financial systems and between legitimate transactions and kleptocratic activities and 'strategic corruption' "

9 Benjamin Braun, Arie Krampf, Steffen Murau, 'Financial globalization as positive integration: monetary technocrats and the Eurodollar market in the 1970s', *Review of International Political Economy*, March 22, 2020

10 Vanessa Ogle, 'Archipelago Capitalism: Tax Havens, Offshore Money, and the State', *The American Historical Review,* December 2017

11 Edward Helmore, 'Google says it will no longer use "Double Irish, Dutch sandwich" tax loophole', *Guardian*, January 1, 2020

legislation, now being championed by many in Washington, will not only help American officials push foreign counterparts to adapt their own transparency legislation but give us better ideas about the American side of many transactions. However, there is an open question about whether this legislation alone will allow the United States to effectively deal with the holes of global sovereignty caused by the offshore world. Efforts to empower civil society in corrupt states are noble but will not address the root causes of what makes kleptocracy so simple: the easy movement of capital through offshore networks.

Most importantly, these policies do not take into account the fact that such transactions are critical to global dollar funding. If the United States is really serious about fighting offshore finance and kleptocracy, it has to put in some deep thought into what the outlines of a global financial system that replaces it would look like. At the original Bretton Woods Conference, John Maynard Keynes proposed a global clearinghouse system denominated in an international currency called Bancor. States would not actually use Bancor but would settle accounts in it.[12] States with persistent surpluses of Bancor would be charged a negative interest rate to encourage them to lend to states that needed funding. Capital controls would help contain private international finances.

12 Luca Fantacci, 'Why not bancor? Keynes's currency as a solution to global imbalances', unpublished draft, January 19, 2012

"The centrality of private offshore banking and Eurodollar creation to global funding must be eliminated to counter global corruption, not only abroad but at home."

It would be exceptionally hard for a New Bretton Woods to happen. However, we can simulate some of its features unilaterally and eliminate incentives for other countries to serve as nodes in the offshore system. A major reason that a country like the UK might want to be a tax shelter is to attract foreign exchange to its country and thus have sources of financing for development, as well as to sustain the value of its own currency relative to a global funding currency like the dollar.

The United States has a tool to sustain the purchasing power of the UK's currency: the central bank swap line. Swap lines came into public consciousness during the 2008 financial crisis, when the Fed allowed major central banks to exchange their local currencies for dollars to backstop Eurodollar deposits. Since the COVID-19 crisis, larger swap interventions prevented a general, global economic collapse. The United States should consider giving countries with strong macroprudential policies, open trade practices, and, most importantly for this piece, transparent financial systems pre-approved access to Federal Reserve swap lines.

This would, of course, mean crowding out opportunities for private finance to intermediate global monetary transactions. However, if the United States is really serious about fighting global corruption, and treating it as a national security threat, the problem has to be cut out at its root. The centrality of private offshore banking and Eurodollar creation to global funding must be eliminated to counter global corruption, not only abroad but at home.

The United States, as the issuer of the world's dominant currency, has a responsibility to sustain this 'global public good' in a manner that limits the ability of rentiers and oligarchs to exploit this public good. Without recapturing the role of global intermediation from private actors, we will never solve the problem of kleptocracy. A national security strategy that addresses these new threats must realise that the enemy is not a set of particular corrupt individuals, but the structure of global capitalism itself.

Yakov Feygin is Associate Director of the Future of Capitalism Program at the Berggruen Institute. This piece was first published in The American Interest *on September 21, 2020.*

SYSTEMIC CORRUPTION AND THE OLIGARCHIC THREAT TO NATIONAL SECURITY

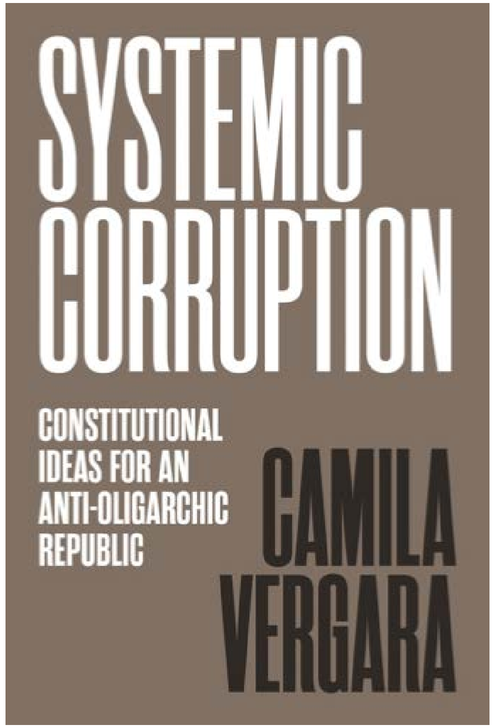
feature

Camila Vergara

*Attempts to tackle corruption have tended to work with a narrow, legalistic definition of the phenomenon, which leaves much that should concern us either out of focus or altogether invisible. Here, **Camila Vergara** draws on a long-neglected strand in the history of political thought to provide an account of corruption that is equal to needs of democratic reformers.*

Corruption seems to be everywhere, despite multiple laws, rules, guidelines, and institutions aimed at increasing government transparency and punishing undue influence. This is because corruption is seen as an individual crime rather than a systemic tendency. We need to move away from the 'bad apples' approach, in which corruption exists only because there are corrupt people in office, and look at the structure in which these corrupt elites are embedded. What I call systemic corruption refers to the inner functioning of the state order, independent of who occupies the places of power in it. Since democracy is a political regime in which an electoral majority is supposed to rule, it makes sense to think that 'good' democratic government would benefit (or at least not hurt) the interests of the majority. When the social wealth that is collectively created is consistently and increasingly accumulated by a small minority against the material interests of the majority, then it means that the rules of the game and how they are being used and abused are benefiting the powerful few instead of the many.
This trend of oligarchisation of power within a general respect for the rule of law provides convincing evidence for the systemic corruption of representative democracy—even if we are still unable to measure it properly.

"We need to move away from the 'bad apples' approach, in which corruption exists only because there are corrupt people in office, and look at the structure in which these corrupt elites are embedded."



According to Transparency International's Corruption Perceptions Index, two thirds of countries suffer from 'endemic corruption,' a kind of 'systemic grand corruption that violates human rights, prevents sustainable development and fuels social exclusion.' But while Transparency International claims corruption is enabling the violation of human rights across the globe, it also acknowledges that corruption cannot be properly measured given the diversity of legal systems (what is considered corrupt in one country is not necessarily illegal in another) and the disparities in the enforcement of norms on the ground. Consequently, the index relies on individuals' perception of corruption to track long-term variations—even if individual perceptions cannot be disentangled from the existing local culture of corruption. This methodological deficiency makes evident that the actual levels of corruption are much worse than those currently being recorded.

In its long and profitable history HSBC has been both a major player in globalised finance and a prolific enabler of criminal activity. Moving with the times it has gone from a leading position in opium peddling in the 19th century to cocaine peddling in the 21st.

The current approach to measuring corruption does not consider an independent standard to judge the law itself, and thus makes it difficult to push back against the introduction, normalisation, and legalisation of vehicles for corruption. The regulation of lobbying, for example, demonstrates that having paid peddlers for special interests can become perfectly legal—even if it clearly strengthens the undue influence of the superrich and their corporations in politics. Given the complex relation between corruption and the law, conceiving and measuring corruption by focusing only on the agents of corruption and their exchanges, is not only ineffective for combating individual acts of corruption —tax havens and shelters make *quid pro quo* corruption extremely difficult to trace and thus prosecute— but they also leave us unable to track systemic corruption, the degree to which the rules of the game are designed to benefit disproportionally and systematically those at the very top of the wealth distribution to the detriment of the majority of citizens.

We have tended to rationalise and downplay the oligarchisation of power in society by using indexes that miss important aspects of the process. For example, the Gini Index underestimates inequality at its most politically significant point, among the superrich, since they tend to stash their wealth in offshore accounts, where it disappears from view. Much like the Corruption Perceptions Index, which is unable to accurately measure corruption, the Gini Index is unable to capture the real degree of inequality because of the massive amounts of wealth that oligarchs from all around the world have been shielding from taxation and scrutiny for decades.

"The current approach to measuring corruption does not consider an independent standard to judge the law itself, and thus makes it difficult to push back against the introduction, normalisation, and legalisation of vehicles for corruption."

While for most of the 20th century systemic corruption waxed and waned, and its increase meant *national* oligarchs and their corporations were able to temporally control parts of government and obtain favourable policies, laws, and verdicts with impunity, today the oligarchic class, as well as part of its wealth, is *transnational*—corporate profits being constantly shifted around, following liability-reduction strategies.

Therefore, the threat of oligarchic power is today not only against democratic governance but also compromises national security since there is no easy way to know if the oligarchs indirectly funding parties, politicians, lawmakers, and judges are domestic or foreign. How can the state protect the population from external threats that are operating within existing legality? 'Following the money' to unveil a corruption scheme or a terrorist network is extremely difficult given that oligarchs have access to a global league of corporate lawyers, who are experts in protecting assets from taxation and burdensome regulations, and in hiding identities behind legal code.

Tax havens and the legal provisions shielding assets from taxation and scrutiny are both a *symptom* of systemic corruption and an *accelerator* of the oligarchic takeover of the political power structures. The establishment of legal loopholes beneficial to the superrich has historically been the result of the pressure exerted by already powerful corporate interests. The first tax havens were created in the late 19th century in the states of Delaware and New Jersey, where incorporation rules were relaxed to attract non-resident companies. Paired with the hegemonic laissez faire ideology of the turn of the century, lower corporate tax rates allowed for the already rich and powerful to accumulate wealth to an unprecedented degree in the United States. Part of the tax-free profits of corporations was then used to influence government to further mould regulations according to their interests, fuelling corruption. The Tillman Act of 1907 came to prohibit corporations from directly financing political campaigns, but lacked enforcement mechanisms and allowed for loopholes. Today Delaware gives tax shelter to about half of all publicly-traded U.S. corporations, among them Apple and Wal-Mart, and corporate donors are legally allowed to bypass campaign finance prohibitions and pour millions of dollars into

"The progressive takeover of political power by an oligarchic class that shapes policy, law, and judicial adjudication for their own benefit, from behind the scenes, is an intensifying threat to national security."

Political Action Committees (PACs), which they then donate to political candidates.

Across the ocean, England also innovated early to favor the wealthy. In a 1929 court case[1] non-resident corporations—British companies with no actual business in England— were freed from taxation. This judicial verdict effectively allowed for a tax-free exploitation of the colonies by British companies incorporated in Jersey, Bermuda, or the Cayman Islands. This privileged non-resident status was then extended to financial operations when in 1957 the Bank of England declared non-resident transactions off limits to regulation and taxation.

The tax evasion by the superrich that originated in the first half of the 20th century reached a turning point in 1983 when U.S. courts allowed the first multinational to move to a tax haven to avoid paying taxes. This judicial authorisation of profit shifting strategies meant that the windfall of corporate profits resulting from the deregulation plan of the Reagan administration were moved abroad. This not only decreased state revenue and social spending but also increased inequality and the rate of wealth accumulation at the very top. According to the Gini Index, inequality in the U.S. has increased sharply in the last four decades and today has the highest rate of the G-7 countries. This jump in inequality in the U.S. is of course much worse, considering that the superrich stash away a big chunk of their wealth offshore, which is not included in the measurements. According to recent estimates, around 40% of multinational profits are shifted to the more than 90 financial secrecy jurisdictions around the world, which now hold as much as $36 trillion dollars of untaxed and anonymous private wealth.[2] How can any State make sure that part of this untraceable money does not end up being used against the interests and safety of their populations?

The progressive takeover of political power by an oligarchic class that shapes policy, law, and judicial adjudication for their own benefit, from behind the scenes, is an intensifying threat to national security. Since it is currently legal for corporations to exploit loopholes and wrap their assets in legal secrecy to avoid scrutiny, domestic terrorist cells funded with corporate offshore money could remain undetected until it is too late. A regulatory framework that is ill-equipped for taxing the superrich and for keeping tabs on their money, cannot fare much better when trying to discover if this untaxed, untraceable money is being used by foreign powers planning to attack the State. The privileges of the superrich—which allow them to bypass the rules meant to curtail their economic power and undue influence—have left states powerless to effectively curtail corruption and protect their populations against foreign attacks. National security cannot be realistically assured if states keep allowing corporations to profit without limits and to shift their profits to avoid taxation, regulations, and oversight.

Camila Vergara is a critical theorist, historian, and journalist from Chile writing on the relation between inequality, corruption, and domination. She is a Postdoctoral Research Scholar at the Eric H. Holder Jr. Initiative for Civil and Political Rights at Columbia University Law School, and author of Systemic Corruption. Constitutional Ideas for an Anti-Oligarchic Republic *(Princeton University Press 2020).*

1 Egyptian Delta Land and Investment Co. Ltd. v. Todd

2 James S. Henry, "Taxing Tax Havens. How to Respond to the Panama Papers" *Foreign Affairs*, April 12, 2016. – https://www.foreignaffairs.com/articles/panama/2016-04-12/taxing-tax-havens

THE ELEPHANT TRAP: THE LANGUAGE OF NATIONAL SECURITY AND THE POLITICS OF LIBERATION

feature

Grace Blakeley

It is tempting for reformers to adopt the language of national security in pursuit of policies that would help protect the interests of popular constituencies. But we should be wary that we don't operate in a register that is far more congenial to our opponents. ***Grace Blakeley*** *draws the outlines of the trap, and suggests how we might best avoid it.*

Does it make sense to talk about the effects of climate change or of systemic corruption as threats to national security?

Discussing the wildfires that were ravaging the West Coast of America, Joe Biden recently called Donald Trump a 'climate arsonist' as he called climate breakdown a threat to America's national security. In a bid to display his patriotism, Biden has frequently drawn on the theme of national security – an issue generally reserved for those on the right; he recently tweeted that every day Trump is in office is 'another day our enemies are emboldened and the American people are at risk.'

Confident in their understanding of the mantras of median voter theory, many politicians believe that in borrowing the right's language, they can weaken its hegemony. From Prime Minister Tony Blair's famous slogan 'tough on crime, tough on the causes of crime', to later Labour leader Ed Miliband's mugs emblazoned with 'controls on migration', British politicians are just as likely to fall into this trap.

In fact, rather than weakening the appeal of right-wing politics, such narratives tend to strengthen it. Language is not neutral – by using certain frames, politicians bring to mind particular stories and narratives that shape voters' emotions and behaviour.[1]

'National security' and 'law and order' bring to mind a bundle of other concepts like war, terrorism and crime that catalyse feelings of fear and anger in many voters. And voters who are primed for emotions like fear and anger are more likely to vote for right-wing parties that promise authoritarian policies, delivered by a strong-man candidate who can defend the dominant voting group from the threat posed by 'outsiders'.[2]

Progressive candidates tend to do best when they are able to build mass support for social transformation based on a vision of society in which everyone has their basic needs met. Anat Shenker Osario's research has shown that voters are more likely to opt for progressive candidates and policies

1 Lakoff, G, *Don't Think of an Elephant,* 2004

2 Rico, G, Guinjoan, M and Anduiza, E, 'The Emotional Underpinnings of Populism: How Anger and Fear Affect Populist Attitudes', *Swiss Political Science Review* 23(4): 444–461, 2017; Pavlos Vasilopoulos, George E. Marcus, Nicholas Valentino and Martial Foucault, 'Fear, Anger, and Voting for the Far Right: Evidence From the November 13, 2015 Paris Terror Attacks', *Political Psychology*, 40(4), 2019.

when politicians use language that unifies people based on an understanding of their common wants and needs – their common humanity – than when politicians attempt to negate the frames of the right. In fact, Shenker-Osario's research has shown that in attempting to negate the right's frames, progressives actually reinforce the power of those frames.[3]

But frames aren't enough on their own; to be used effectively, they have to be woven into a compelling story. Stories, Lakoff reminds us, have a particular structure (beginning, middle and end) and an easily-identifiable cast of characters (hero, villain, victim).[4] More often than not, those on the left only tell half a story: they identify a problem without saying who caused it – they give us a story with no characters, and leave themselves vulnerable to counter-narratives that shift the blame onto convenient scapegoats.[5] Progressive politicians who centre issues like inequality, poverty and climate breakdown without pointing out that these issues have been caused by a wealthy elite that grows rich on the hard work of others will often find themselves outmanoeuvred by right-wingers who concede that society has become too unequal, but instead blame benefits claimants and migrants.

3 Shenker Osario, A, *Messaging this Moment: A handbook for progressive communicators, 2017*

4 Lakoff, G, *Thinking Points,* 2006; Lakoff, G, 'Metaphor and War: The Metaphor System Used to Justify War in the Gulf', *Peace Research* 2, pp. 25-32, 1991

5 Shenker Osario, A, *op. cit.*

"Language is not neutral – by using certain frames, politicians bring to mind particular stories and narratives that shape voters' emotions and behaviour."

This is not to say that any use of the words 'security' or 'order' by left wing candidates will fail to generate the desired response. But if we are to avoid the linguistic traps laid by the right these terms need to be reframed. Progressives, if they do use such language, must try to recontextualise terms like 'security' and 'disorder' by placing them within a wider narrative that shifts blame for in-security and dis-order away from working people and towards the ruling class. The former leader of the opposition Jeremy Corbyn, for example, used the term 'national security' in a speech after the Manchester bombings in which he condemned the UK's foreign policy because it made the British people less safe. But he did so while providing a clear story as to why this was the case – complete with the war-mongering British ruling class as its central villain – and, crucially, while offering an alternative vision of the future based on our collective capacity to organise in order to hold this villain to account.

But when Biden talks about climate breakdown in terms of the threat it poses to national security, without placing this in the context of a coherent and compelling narrative that explains why, he is simply encouraging voters to feel fear at the prospect of wildfires, food shortages and extreme weather events. And unless he develops a coherent strategy to direct blame for these events towards those most responsible for them – fossil fuel executives, the bankers that fund them and the political class that subsidises them – voters will simply find another group to blame for their feelings of fear.

The fear catalysed by constant discussion of climate breakdown, without either a positive plan for dealing with it or a clear group to blame for it, will create a space that the right will fill with more xenophobia, nationalism and division. It is easy to imagine future right-wing administrations responding to the national security threat posed by climate breakdown by shutting down borders, further restricting other states' access to green technologies and – perhaps most terrifying of all – waging wars with other states over scarce resources. The British military has already begun to prepare for the resource conflicts it anticipates resulting from a 4°C rise in global temperatures that it now considers inevitable.[6]

6 Ahmed, N, 'British Military Prepares for Climate-Fueled Resource Shortages' *Vice, 14 September, 2020*

The same lessons apply to questions of tax justice and inequality. As other contributors to this collection have noted, there is a convincing case to be made that systematic tax avoidance and evasion and inequality are both threats to our collective security. The FinCEN files have recently revealed how some of the world's biggest banks – many headquartered in the UK – have allowed criminals to move their money around the world (BBC, 2020).[7] Occasionally, investigations reveal that the UK's financial system is actively undermining the aims of UK foreign policy: UK banks have been fined for undermining sanctions on Iran and Russia, and for laundering money for Mexican drug cartels.[8]

Similarly, high levels of inequality undermine many other stated policy aims of successive UK governments. In recent years, a decades-long trend of falling violent crime rates has been reversed. There are numerous explanations for this reversal – including rising poverty and cuts to funding for youth services – but the single biggest predictor of violent crime over time and across countries is the level of inequality.[9]

Inequality and tax avoidance undoubtedly make our societies less safe, just as climate breakdown does. But the language we use

7 BBC (2020) 'FinCEN Files: All you need to know about the documents leak', *BBC, 20 September, 2020.*

8 Markotoff, K (2019) 'Standard Chartered fined $1.1bn for money-laundering and sanctions breaches', *The Guardian,* 9 April 2019.

9 Fajnzylber, P, Lederman D and Loayza N, *Determinants of Crime Rates in Latin America and the World – An Empirical Assessment,* World Bank, 1998.

"By repurposing right-wing tropes to describe the problems we care about, we may subconsciously increase the power of reactionary, authoritarian politicians."

to describe these trends is very important. By repurposing right-wing tropes to describe the problems we care about, we may subconsciously increase the power of reactionary, authoritarian politicians. Saying 'inequality is a threat to our national security' is likely to make voters feel scared, or angry at those who pose the perceived threat – both of which are emotions that are systematically correlated with higher support for right-wing populist parties.

Progressives need to develop their own language and their own stories to describe the problems our world faces. Shenker-Osario has undertaken in-depth research with volunteers in multiple different countries, and the same finding has consistently emerged: campaign messaging that engages the base and alienates the opposition is the most persuasive to undecided voters. Having the 15% of people who passionately agree with you – along with the 15% of people who passionately oppose you – repeat your message over and over makes that message infinitely more powerful. Trump, Johnson and others know this, and use this messaging strategy very effectively. But the left is falling into their trap by repeating right-wing frames like 'national security' and 'law and order'; even when negating these frames, we increase their appeal in the general population.

Rather than feeding into narratives based on fear, it is critical for the left to paint a positive vision of the world we could build, if we are able to work together to defeat the vested interests that stand in the way. If we want to overcome climate breakdown, inequality and all the multiple other social problems that our world currently faces, we must clearly identify those problems, ascribe blame to those most responsible for causing them, and paint a clear vision as to how we can work together to overcome them. The Green New Deal, which aims to create jobs and reduce inequality while facilitating decarbonisation, is clearly an incredibly powerful frame that can be used to do just this. Rather than attempting to scare people into voting for the left – a strategy that can only ever help those on the right – we need to encourage them to believe that the world can be different. In other words, we need a politics based on the language of hope.

Grace Blakeley is an author whose books include Stolen: How to Save the World from Financialisation *and* The Corona Crash: How the Pandemic will Change Capitalism. *Grace is a staff writer at* Tribune *magazine, where she hosts the podcast A World to Win.*

On October 8 six men were charged with plotting to kidkap Michigan governor Gretchen Whitmer and overthrow the state government. Setting aside the details of this case, which is now a matter for the courts, the United States is likely to see increasing political violence, as both foreign and domestic actors seek to exploit social tensions in pursuit of their interests. Their ability to intervene undetected, and the background unrest they depend on, both link back to the offshore system.

TAX HAVENS HARM OUR WELL-BEING AND SECURITY

feature

Nick Shaxson

As societies become more unequal they become increasingly unstable. Those tasked with preserving national security need to take the threat this poses far more seriously, argues ***Nick Shaxson****.*

Our beleaguered societies should learn a trick from the Weebles, an egg-shaped children's toy popular in the 1970s which always righted itself after you pushed it over. As the advertising jingle put it: 'Weebles Wobble But They Don't Fall Down.' The secret was the weight in the toy's base.

In this they reflected western societies at that time. A postwar order characterised by strong workplace protections, generous welfare provision funded by steeply progressive taxes, and effective curbs on concentrated corporate power meant that productivity gains were shared more or less equitably. Meanwhile, tight financial regulation curbed the ability of powerful financial interests to overrun the authority of democratic governments. This postwar order secured high levels of public support for liberal democracy. Since the advent of financial deregulation, however, power and wealth have become highly concentrated at

the top end of the pyramid, and justifications for inequality have trickled down.

Not surprisingly, support for liberal democracy has frayed. [1]

As power and wealth concentrations have become ever more top-heavy, social cohesion and democracy have become pushovers. Illiberal and anti-democratic actors, domestic and foreign, are on the offensive, corrupting our institutions, our media and our political processes. Inequality on its own is toxic enough: historically it has overturned empires, dictatorships, theocracies and democracies, and at times led to war. As inequality spreads, the likelihood of bloodshed rises.

But the issues and mechanisms that the tax justice movement focuses on – tax havens, shell companies, offshore trusts, corporate tax cheat structures – are especially corrosive. The threats to our collective security lie on many levels, each more insidious and pernicious than the others.

First, most obviously, tax havens reward rich people at the expense of poorer people, worsening inequality and deepening schisms.

Second, tax havens corrupt markets, allowing tax cheats to free-ride on public services, and rewarding large corporations at the expense of small and medium enterprises, worsening the problems of monopoly and concentrated corporate power.

Third, many of these tools are about *hiding*. This has destabilising effects, inflicting damage on our cultural, political and economic institutions. Tax havens are hothouses for organised crime, helping criminals and oligarchs to penetrate the heart of many governments. Major revelations, from the 2016 Panama Papers to Tom Burgis' new book *Kleptopia*, have exposed how British tax havens helped Russian oligarchs amass secret wealth (and power) and how their fortunes merged with those of the post-Soviet organised criminal underworld such as Semyon Mogilevich, whose core talent has been 'to

"Since the advent of financial deregulation, power and wealth have become highly concentrated at the top end of the pyramid, and justifications for inequality have trickled down."

1 https://www.bennettinstitute.cam.ac.uk/media/uploads/files/DemocracyReport2020.pdf

"Tax and regulate economic actors properly, and the predators will leave."

slink [criminal] money around the world incognito.' Worse, tax haven secrecy enables bribes and illegal political donations to flow undetected, making it increasingly difficult to trust the integrity of everyone from the Prime Minister and the President down.

All this undermines citizens' faith in state institutions that are supposed to protect the public interest. By allowing individuals and businesses to operate outside the law, tax havens offend against the principle of civic equality: one rule for them, one rule for us corrodes the social fabric on which so much depends. Equally dangerous, with the reputations of both London and New York tarnished by being labelled as laundromats for kleptocrats and organised crime, the soft power diplomatic advantages that the UK and USA previously enjoyed from being able to project moral authority across the world have been washed away by the sea of scandals.

Britain's tax haven network helped accelerate the slide of nuclear-armed Russia into gangsterism, posing severe security threats to Britain itself. Citizens around the world, from Saudi Arabia to Russia to Venezuela, have seen for themselves how their national treasuries have been looted, and the proceeds stashed by élites in western tax havens. This looting has fomented public distrust and rage.

Undoubtedly tax havens hurt the countries suffering the plundered outflows, but they also pose grave threats to the economies receiving the inflows. Western countries playing the tax haven game have created a monster, which has turned around to bite them.

Illicit financial flows divert political leaders and civil servants away from the public interest, towards secret, more nefarious personal ends. They throw a lengthening shadow over academic institutions, think tanks, commentators, celebrities, influencers and media. An OECD report described how tax havens allow political parties to set up secret branches disguised as think tanks or foundations, 'sometimes referred to as "offshore islands" of political parties.' Tax haven funds combined with offshore-based media moguls prepared the way for Britain's Brexit campaigners, leading to the destabilisation of relations with key political and military allies.

Tax havens are corrupting our leaders, our institutions and our democracies, generating yet more rage among the citizenry. When the last global financial crisis hit, western leaders largely didn't change their economic policies in response to democratic pressure for change: instead, they subverted democracy to keep the same élites in power, and doubled down. The Covid crisis may worsen matters.

Decades of deregulation have left financial markets awash with illicit money seeking pliant host countries. Tax havens prosper by relaxing laws, rules, taxes and law enforcement, creating a criminogenic environment in the name of financial freedom. In the accelerating 'global race' to attract hot money, countries 'compete' by offering yet more tax cuts, more regulatory loopholes, and outright subsidies to global elites and powerful corporations.

A bigger problem, though, is the devil's bargain at the heart of this global race-to-the-bottom. Oligarchs, despots, organised crime, and other owners of rootless financial capital are so heavily invested in London and New York that their threats to disinvest and switch their wealth to Zurich or Singapore or Panama, have real potency. The misguided quest to attract the world's hot money puts tremendous, unaccountable, direct power into the hands of malign actors, domestic and foreign. If this isn't a threat to our democracy and collective security, it is hard to know what is.

Criminality isn't the only problem confronting 'inflow' countries. Lax banking regulation brought us the global financial crash, and will deliver more crashes. Large inflows of financial capital into London and Wall Street generate a 'brain drain' into offshore-focused finance, damaging other economic sectors. Those same inflows push up local prices and the exchange rate, rendering it harder for manufacturers and producers to compete against imported goods, while also making housing unaffordable for young people. These problems, and the collective internal security risks they foment, are the essence of the finance curse.

The agencies tasked with protecting our collective national security, many steeped in countering terrorists radicalised by the plundering of their own countries in the Middle East and Africa, now need to recognise the scale of the threat to democracy and social stability emanating from kleptocrats, oligarchs, and organised crime. And they need to understand how this threat is structurally bound up with an army of professional enablers in accountancy, finance and law and an increasingly dysfunctional domestic economy.

Yet there is great hope here. That sea of rent-seeking and criminal capital isn't the route to prosperity for western democracies: it's a trap. We can simply step out of the race-to-the-bottom. Tax and regulate economic actors properly, and the predators will leave. The finance curse tells us that western tax havens will be better off for it. And, as a further bonus, we will reduce the looting of poorer countries by their élites, curbing the rage. Like the Weebles of the 1970s, tackling tax havens would help us bounce back up again.

Nick Shaxson is a journalist, author and investigator. His books include Treasure Islands: Tax Havens and the Men who Stole the World *and* The Finance Curse: How Global Finance is Making Us All Poorer.

GETTING A GRIP ON GLOBAL FINANCIAL INFRASTRUCTURE

feature

Edoardo Saravalle

The United States has long relied on informal agreements with private sector institutions to assert its interests in the global financial system. If we are to fight kleptocracy, we need to make this privately run plumbing more accountable to international institutions, argues ***Edoardo Saravalle****.*

When President Trump defied the international community and left the Iran nuclear deal in 2018, he had an unlikely partner: the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The Belgian SWIFT provides the payments-messaging services that, in the words of Federal Reserve Chairman Ben Bernanke, are 'part of almost every international money transfer.'[1] So when SWIFT decided to ban certain Iranian banks from its services—over the protests of European governments—it packed a major punch to Tehran's economy.

Today, privately-controlled financial nodes like SWIFT are regular partners of U.S. foreign policy. This may soon change. As Washington focuses more on transnational economic threats like kleptocracy and tax evasion, infrastructure providers may consider their economic self-interest before eagerly cooperating. Public-private partnerships are a shaky foundation for U.S. foreign policy, and the United States should not let private actors control the plumbing of the international economy. Instead, it should seek global cooperation to create a better system.

SWIFT is just one of the services that make up the international economy's plumbing. To make metals trading easier, there is the London Metal Exchange (LME) that enables futures trading and licenses warehouses around the world. To ensure the smooth payment and tracking of securities, there are Clearstream and Euroclear. To make investing in emerging markets easier, J.P. Morgan created the Emerging Market Bond Index which brings together securities across a wide swath of countries. And the London Inter-bank Offering Rate (LIBOR), a changing interest rate based on a survey of bank employees, is calculated to ensure adjustable interest rates that mirror market conditions.

"Public-private partnerships are a shaky foundation for U.S. foreign policy, and the United States should not let private actors control the plumbing of the international economy."

These 'infrastructures' started as ways to make commerce easier, then became central to the functioning of global finance, and now are key components of U.S. power. The SWIFT threat is one of the strongest weapons in the U.S. economic arsenal. Even major players like Russia and China have come to fear a cut-off. But SWIFT is not alone. The LME magnified the effect of U.S. sanctions against Russian aluminum producer Rusal by suspending the company from its exchanges. Clearstream has blocked Iranian and Russian assets, and J.P. Morgan zeroed out Venezuela in its bond index, restricting capital flows to the country.

While these infrastructures do further U.S. foreign policy, they promote a limited vision of it: one where Washington enforces norms and goals against specific countries. But U.S. foreign policy is changing. During his campaign, Vice President Biden has promised a 'foreign policy for the middle class,'[2] one that unites foreign and domestic goals, that combines economic and security goals, and that targets tax havens and corruption as 'drivers of inequality.'[3] This would mean taking on a world where 8 percent of global household wealth hides in tax havens.

International financial infrastructures should be great partners in tackling these transnational problems. What better way to monitor and check international flows of money between shady jurisdictions than networks like SWIFT or ClearStream that make these flows possible? The NGO Tax

1 'Highlights: Bernanke's Q&A testimony to House panel', Reuters, February 29, 2012

2 Joseph Biden, 'Why America Must Lead Again', *Foreign Affairs,* March/April 2020

3 Jake Sullivan, 'What Donald Trump and Dick Cheney Got Wrong About America', *The Atlantic,* January/February 2019

Justice Network has called for 'SWIFT statistics for all' to track financial flows and tax evasion, and Georgetown Professor Stefan Eich has argued SWIFT contains an 'an untapped utopian promise' of 'global monetary and financial regulation' due to the fact that all financial transactions need to flow through it.[4]

However, past cracks in U.S. cooperation with infrastructures suggest that leveraging these privately-controlled choke points might not be so easy. First, these nodes did not help Washington out of altruism. It took years of fines and enforcement by the United States to ensure cooperation. Clearstream paid $152 million in fines over allegations that it held $2.8 billion in securities for the Central Bank of Iran. The board of SWIFT is made up of representatives for the world's largest financial institutions, so it faced two layers of threats: enforcement against the board-member banks and against the company itself. This danger presented itself in 2018, when Iran hawks outlined the option of sanctioning member banks if SWIFT did not ban the Iranian banks.

Even more pressure will be necessary in the future. Faced with these legal costs and compliance headaches, the infrastructures limited their risk by cutting off Iran. The countries that enable tax evasion, though, are far more plugged into the global financial system. It will be harder for enforcement actions to convince infrastructures to cut off or pressure these countries or banks. Prosecutors' nerve may fail before taking on major European jurisdictions, and U.S. policymakers may choose transatlantic conciliation over more friction regarding tax enforcement. Plus, it will be harder to count on the self-interest of the private sector: their financial interests will be far more at stake with tax havens compared to Iran.

Furthermore, successful coercion by the U.S. might not ensure consistent cooperation from these infrastructures. In the past, they have gone along with U.S. requests while also furthering other competing agendas. British banking giant HSBC has frozen the account of a Hong Kong pro-democracy activist and has come under fire, along with British bank Standard Chartered, for backing the region's controversial national security law. These banks have acted even as U.S. sanctions forced financial services firms to cut ties with pro-mainland Hong Kong government figures.

In one extreme case these infrastructures enabled non-state actors to assert themselves over sovereign governments. Bond servicing infrastructures enabled hedge funds to enforce their will over the government of Argentina. Facing a court order, Buenos Aires discovered that it could not pay all other bondholders through the traditional payment infrastructures as long as it refused to pay the hedge funds.

Privately-controlled infrastructures' cooperation with competing agendas could harm U.S. anti-kleptocracy and anti-evasion goals. Countries that currently benefit from tax evasion and the unfair financial architecture of the global economy, whether by offering exceedingly low tax rates or allowing owners of ill-gotten wealth to shield their identities, would fight these U.S. measures and try to sway the infrastructure providers. In the past, countries have protested, refused to cooperate, and (often rightly so) complained about U.S. hypocrisy. In 2014, the United Kingdom opposed Russia sanctions that would have harmed its financial sector and spearheaded efforts to build a relationship with Chinese finance. Still, in most of these cases, U.S. threats have convinced recalcitrant countries.

"As the power-politics of the global financial system evolve, the United States might lose its uncontested influence as infrastructures hedge their bets by appeasing other countries. International control would therefore bring realpolitik as well as moral benefits."

A transnational anti-evasion and anti-kleptocracy campaign would run into a new problem as well. The success of such an effort would depend on its ability to sway the private sector—giving added influence to the same entities it is trying to coerce. While a SWIFT board member or a securities processor is agnostic about Iran policy, as long as it does not have economic interests in play, it will have strong thoughts about continuing to serve the world's wealthiest citizens—and in keeping its own tax rate low. This will make it more appealing for these infrastructures to form coalitions with like-minded countries bent on protecting their privileges in today's unfair global financial system.

Finally, these privately-run infrastructures can be outright corrupt, so even if they were to cooperate they would be unsteady partners. The LIBOR scandal makes this danger clearest. The LIBOR is a number that is central to the functioning of global credit markets. Lenders adjust the rates they offer borrowers based on LIBOR. According to the New York Federal Reserve Board, there are about $1.3 trillion in consumer loans and $5.2 trillion in corporate loans and bonds based on LIBOR.[5] The number, soon to be shelved in light of its legal problems, shifts daily based on surveys of bankers. Following a major investigation, the U.S. Department of Justice and the U.S. Commodity Futures Trading Commission found that traders were cooperating to game these surveys. They would adjust their responses in order to make money on their positions. In the process, they shaped the cost of borrowing for borrowers all over the world. The LIBOR case highlights the

4 Stefan Eich, 'SWIFT: A Modest Proposal', *The Nation*, October 17, 2018

5 'Second Report: The Alternative Reference Rates Committee', Federal Reserve Bank of New York, March, 2018

underlying peculiarity of the infrastructures: though they are faceless and globally influential, they are usually made up of just a few players who can tilt the playing field. The incentive to tilt the field toward the private sector would be even more pronounced in this new foreign policy context.

Washington should not fight kleptocracy and tax evasion on such an unstable foundation. It should not rely on private partners that require constant coercion, that work with countries and private interests with competing agendas, and that allow corruption. Instead, Washington should ensure supranational control of these infrastructures so that they respond to the goals and wishes of the international community.

Turning the infrastructures of global finance into international organisations will have its costs. Today, sanctions often allow Washington to gets what it wants quickly and unilaterally, avoiding the diplomatic headaches that come with multi-lateral decision making. And indeed, making bond-servicing or payment processing plumbing the joint responsibility of international governments might entail more of the gridlock and international squabbling associated with the United Nations and other international organisations.

Still, this would be a far-sighted plan for the United States. States should not delegate key nodes of the global economy to private actors with their own agendas, particularly as they undermine states' goals. As the undercutting of pro-democracy activists in Hong Kong suggests, private organisations can be untrustworthy partners. As the power-politics of the global financial system evolve, the United States might lose its uncontested influence as infrastructures hedge their bets by appeasing other countries. International control would therefore bring *realpolitik* as well as moral benefits.

As long as states are in charge, Washington will have a seat at the table. From this seat, it will be able to carry out a far-reaching and innovative foreign policy aimed at righting an unfair financial system. Internationally-controlled financial infrastructures will ensure that it is public goals, not private interests, that set the agenda.

Edoardo Saravalle is a former researcher at the Center for a New American Security. This article was first published in The American Interest *on September 4, 2020.*

In the United States support for conspiracy theories and political currents that flirt with fascism have grown as the country has become more unequal. The vicious circle of untraceable funding for right-wing extremism and mounting desperation must be broken.