

Seizing Russian Assets: Ruble Wise but Dollar Foolish

Grabbing Russian wealth would set a dangerous precedent and, worse, prolong the war in Ukraine.

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The second anniversary of Russia's invasion of Ukraine is approaching and the Biden administration increasingly fears that its policy is failing. Although in public President Joe Biden remains confident about Ukraine's future, the Pentagon reportedly [is pushing](#) new military plans for Kiev to go on the defensive. "Unnamed officials" in his administration increasingly talk of the need for a negotiated settlement. [They justify](#) further American aid as a way to increase Kiev's negotiating leverage, not to defeat Moscow's forces. Ukraine's glory days last year in turning back Russian armored columns are long gone.

Money is also increasingly scarce. Political elites in the U.S. and Europe continue to support the Zelensky government, but popular opposition is rising, so they are looking for other sources of revenue—including hundreds of billions of dollars in frozen Russian assets.

It seems so simple. After the Russian invasion of Ukraine, the U.S. and European nations imposed economic sanctions on Moscow—the government and its people. The allies froze sundry assets of targeted individuals, mostly wealthy "oligarchs" viewed as regime supporters, and, in an unprecedented move, some \$300 billion in financial reserves of the central government. Why not give it to Kiev? First the idea was to support Ukraine's reconstruction after Russia was defeated and humiliated. Now the proposal is to aid the former's faltering war effort.

Support for widespread confiscation is growing on both sides of the Atlantic. Ukraine's President Volodymyr Zelensky pushed the idea at the recent Davos gathering. Per *Fortune*,

he [called](#)

for a “strong” decision this year for the frozen assets in Western banks to “be directed towards defense against the Russian war and for reconstruction” of Ukraine. “Putin loves money above all,” he said. “The more billions he and his oligarchs, friends and accomplices lose, the more likely he will regret starting this war.”

Belgium holds the largest amount of frozen Russian assets [and suggested](#) that the funds could “be used to buy military equipment, humanitarian aid and help with the rebuilding of the war-torn country.” Perhaps the most enthusiastic European proponent is [the United Kingdom](#).

Some Western officials don’t want to stop with aid to Kiev. The Washington heavyweight Robert Zoellick [suggested](#) “setting aside some of the Russian reserves to assist developing countries that have been demonstrably hurt by higher food and energy prices. In addition, some amount could be allocated for claims by companies that suffered Russian retaliation.” Why not also use the money to solve the international debt crisis, reimburse governments for the cost of Covid, create universal global health care, and send a manned mission to Mars?

The Biden administration long was skeptical of grabbing Russian property, but has been moving to support the initiative [with legislation](#). The *New York Times* [reported that](#) the administration is “pressing Britain, France, Germany, Italy, Canada and Japan to come up with a strategy by Feb. 24, the second anniversary of the invasion.” At the Davos meeting, Penny Pritzker, a former commerce secretary who currently serves as Special Representative for Ukraine’s Economic Recovery, [said](#) that the U.S. and the G7 are working out the instruments for the seizures. Again in *Fortune*: “‘Get all the lawyers and all the various governments and all the parties really to come together to sort that through,’ she said. ‘It’s hard, it’s complicated, it’s difficult, and we need to work.’” As Ukraine’s battlefield prospects flag, support for grabbing whatever Russian wealth is at hand is likely to grow.

Nevertheless, doing so is a bad idea, despite the superficial appeal.

Western leaders talk often about the “rules-based international order;” of course, they write the rules but ignore them whenever inconvenient. Grabbing the assets of foreign nations and nationals without convincing justification would further expose their hypocrisy. European critics [point out that](#) “The U.S. and its allies aren’t at war with Russia, and Russia didn’t amass its wealth through illicit means but largely by selling oil and gas, much of which went to the West.”

Of course, Russia’s President Vladimir Putin wrongly loosed the dogs of war on Ukraine. For that his government bears responsibility. Nevertheless, if national governments were empowered to unilaterally grab assets, both state and private property when governments had engaged in illegal and immoral wars, then Americans would have been stripped bare [after Iraq](#). Washington long has benefited from a global double standard because of America’s military power and political influence.

With the international power balance changing, the U.S. might not be immune in the future. Even the Europeans have tired of what they see as obstructionism involving their priorities, such as climate change, technology regulation, and more. If other governments remain chary about challenging the US government, they might become more willing to seize the

property of Americans, both of individuals and companies. Future US officials might rue a precedent that governments can seize whatever they want from whoever they want without recompense.

The allied case for grabbing Russian assets is poor. The American and European governments present themselves as innocent bystanders in *l'affaire Ukraine*. However, they misled both Moscow and Kiev, [violating multiple assurances](#) of not expanding NATO while promising to induct Ukraine but failing to act on their commitment. Russia was angered and Ukraine was emboldened; both were betrayed. Invader and invaded alike have a claim to compensation from Washington and Brussels.

Although the emphasis has been on taking government property, some policymakers also would seize private assets. Indeed, last year the Justice Department [confiscated \\$5.4 million](#) from Russian businessman Konstantin Malofeyev and transferred the money to a State Department fund to rebuild Ukraine. No doubt, many such “oligarchs” are morally dubious characters, having manipulated the system and misused influence to gain their wealth. That is an issue for the Russian people, not Western governments. Nor are allied societies free of unjust state-created privileges, called [“rent-seeking”](#) by economists. Grabbing people’s assets because of their personal reputations makes a mockery of the rule of law and property rights.

More broadly, allowing politicians to seize sundry property and funds from politically unpopular owners would place all property and funds at risk. As Sergey Aleksashenko, a Russian dissident and former central bank official, [observed](#):

“I do not believe that there is any way to confiscate assets of the Russian Central Bank without a court deciding on the matter. Because if there is no legal basis to confiscate Russian assets, and if it is done by the decision of the administration, that means that there is no rule of law in the U.S. and there is no protection of private property.”

Advocates for stealing Russian cash have floated various theories, such as treating property seizure as being a unique countermeasure to aggression. [Nevertheless](#), “as a justification for confiscating Russian state assets, the reprisals argument has three problems: It lacks compelling effect, it is being invoked by the wrong parties, and it undermines the rules-based order western governments claim to defend.” The author Simon Hinrichsen [argued that](#) the circumstances are unique. Once the West sets such an exception, however, there is no logical limit. One could imagine taking someone else’s money as compensation for human rights violations, unfair trade practices, or climate mismanagement, all of which could be termed “unique.”

Dispensing with basic legal principles for a few billion dollars in booty brings to mind the famous [Sir Thomas More quote](#) in *A Man for All Seasons*:

Oh? And when the last law was down, and the Devil turned 'round on you, where would you hide, Roper, the laws all being flat? This country is planted thick with laws, from coast to coast, Man’s laws, not God’s! And if you cut them down, and you’re just the man to do it, do you really think you could stand upright in the winds that would blow then? Yes, I’d give the Devil benefit of law, for my own safety’s sake!

Washington’s use of financial weapons already has caused many foreign governments, including in Europe, to look for means to insulate their economies from U.S. sanctions.

Admittedly, [alternatives are limited](#), and governments [retain dollar-denominated investments](#). Yet the allied seizure of Russian assets would likely concentrate minds in governments at odds with Washington and Brussels and speed their searches for other financial storehouses. No country could feel safe in such circumstances.

Taking Moscow's money also would be arbitrary. After all, Saudi Arabia and the United Arab Emirates are responsible [for hundreds of thousands](#) of deaths in Yemen. Why not take the royals' cash, effectively stolen from their populations? Israel has been hauled before [the International Court of Justice](#) for its promiscuous killing of civilians in Gaza amid much rhetoric promoting ethnic or religious cleansing. Shouldn't overseas Israeli assets be seized? Then there is China. Consider its manifold human rights abuses and its military threats against Taiwan. Don't they count? Why tag only Russian wealth for seizure?

In practice, Moscow undoubtedly would retaliate by seizing American and European assets. At the end of 2022, Western investments in Russia [were valued](#) at \$288 billion. Moscow would probably confiscate them. The greatest burden would fall on private enterprises that could offer little defense. Although Russia would be worse off by the exit of Western firms, for many Russians cheap foreign assets would be a substantial windfall. Indeed, the Putin government might view the expulsion of foreign firms as a benefit, reducing subversive foreign influences and rewarding government loyalists.

As for Washington, its high-profile attempt to steal other nations' assets would reinforce the impact of sanctions, which is spurring other nations to reduce their reliance on U.S. financial instruments and institutions. A \$300 billion money grab almost certainly would [accelerate this process](#).

Perhaps the most harmful impact of seizing Russian assets would be making it harder to end the war. So long as Moscow's money is frozen, it could be restored as part of a peace settlement. Western governments could use the prospect to encourage negotiations between angry, distrustful antagonists. Indeed, with Russia increasingly believing that it has a military advantage, returning frozen assets, especially of the Russian state, and reopening markets to Russian firms might be necessary inducements for a peace agreement.

Confiscating financial reserves while retreating on the battlefield would encourage Russia to press forward to retrieve its losses and more. Despite outrage at Moscow's unjustified (though [not unprovoked](#)) invasion, the issue of war and peace should be treated as one of prudence rather than morality. Ukraine is itself the battlefield and has [paid most heavily](#) for the conflict. It is essential to end the war, and to do so as soon as possible. Slowing that process to grab Russian monies would be counterproductive in the extreme.

The Putin government invited the Biden administration to negotiate before its February 2022 invasion. Washington refused, apparently assuming that Moscow's threats were not serious. Now the allies, frustrated at the failure of their plans, are moving toward lawlessly seizing Russian property and reserves. Doing so would be ruble wise but dollar foolish. The so-called "rules-based order" means something only if its advocates obey the same standards they propound for everyone else.

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