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# THE UTILITY OF ECONOMIC SANCTIONS

by

JAMES P. O'LEARY

Professional observers of international affairs—participants and academics alike—have stressed the declining utility of military power in recent years. The sheer costliness of modern weaponry, competing demands of domestic welfare, nationalistic assertiveness of developing nations in denouncing great-power military interventions, and the overwhelming destructive capability of tactical and strategic nuclear weaponry have inspired countless variations on the theme of the unusability (and immorality) of resorts to armed coercion by contemporary nation-states.

It is not the intention of this essay to explore the validity of such arguments. There are many qualifications and exceptions to the rule that armed force is on the decline as an instrument for projecting national influence, as any glance at current events illustrates.

But one need not accept the argument that military power is of declining utility in order to accept the more valid contention that the coming years will demand flexible and adaptive instruments, short of the threat or use of armed force, on the part of any power which seeks to manage events and increase its influence. And merely to proclaim the declining utility of force without developing these compensating strategies to cope with such an (allegedly) altered environment fosters a national security outlook which can be at best passively reactive, and at worst self-destructive.<sup>1</sup>

The understanding of military strategy has evolved from its focus solely on overt

employment of coercive force and total war to embrace as well more subtle forms of strategic deterrence: informal penetration, low-intensity warfare, and political strategies of counterinsurgency and limited war.<sup>2</sup> The result has been better appreciation of the political utility of force as distinct from the use of overt military coercion.<sup>3</sup> By contrast, the literature concerning strategic use of economic resources still focuses almost exclusively on the overt employment of coercive measures to determine specific outcomes, whether to punish transgressors and deter war (as in the League of Nations sanctions of the 1930s) or to change undesirable internal characteristics of target states (as in the United Nations sanctions against Rhodesia). Discussions focus on the costs and benefits of economic sanctions;<sup>4</sup> on the efficacy of embargoes and export controls on goods and services (especially high technology) to affect the behavior of target states;<sup>5</sup> on offensive formation of cartels and defensive strategies to break existing cartels;<sup>6</sup> on competitive currency manipulation;<sup>7</sup> on the fine tuning of credits, aid, and loan policies for maximum leverage;<sup>8</sup> and on more extreme scenarios for waging all-out economic warfare.<sup>9</sup> The understanding of strategic economics has not progressed much beyond this initial phase of infatuation with "hardware" and coercion to affect policies of other states. This emphasis has prevailed despite mounting evidence of the impracticality of most strong-arm economic tactics.

## OBSTACLES TO SUCCESSFUL ECONOMIC COERCION

Any successful application of coercive economic power by state A with regard to state B entails often imponderable calculations:

- The costs to state A of making the threat.
- The costs to state A of implementing the threat.
  - A's calculations of B's vulnerability.
  - A's calculations concerning B's likely retaliatory response.
  - A's calculations concerning third-power reactions, (e.g. rivalry for influence over B or retaliatory sanctions against A).
  - A's calculations concerning domestic consequences.
  - B's calculations of the costs of compliance vs. noncompliance.
  - The rationality of A and B and their propensity toward risk-taking.
  - The possibilities of misperception.
  - Chance.<sup>10</sup>

The complexity of these factors explains the uneven record of coercive economic diplomacy in the postwar period.

Perhaps the most basic limitation on coercive economic sanctions is simply the relatively narrow range of issues in which such influence is likely to be effective. The international political arena remains indisputably one in which resort to military force is the *ultima ratio*, and economic leverage cannot be expected to blunt the aggressiveness of states in a world persistently disposed toward anarchy. The ability of states to substitute economic instruments of coercion for more traditional military instruments is at best limited. Meanwhile, the new chessboard of international interdependence remains predisposed to violence whenever a single player chooses to revert to the familiar old-style behavior of power aggrandizement by military aggression or, more indirectly, by credible implicit threats of military sanctions.

Observers who have addressed the issue of substitutability have reached no more than tentative and highly qualified conclusions on

whether "economic sources of power allow governments to carry on 'war by other means,'" as Keohane, Nye, and Bergsten have suggested.<sup>11</sup> They cite five examples of such ready substitution: the blockade against Napoleon; the League oil embargo against Italy; the US embargo on exports to Cuba; the Rhodesian sanctions; and the OPEC embargo on oil sales to the United States and the Netherlands in 1974. But, as Robert W. Tucker has pointed out, these are not convincing demonstrations of the use of economic power to carry on war by non-military means. The blockade against Napoleon was but a single component of a broad allied military strategy, and its success cannot be measured in isolation from that struggle; the sanctions against Italy, Cuba, and Rhodesia were hardly convincing demonstrations of economic power divorced from military support; and even the Arab oil embargo was not pressed beyond certain limits for fear of prompting retaliatory military measures, measures made perhaps even more plausible in the ensuing seven years.<sup>12</sup>

Tucker's conclusion as to the utility of overt coercive economic power is thus well taken:

Although it may be true that military power has so declined, it does not follow that economic power has accordingly risen . . . . Economic coercion can only be fully effective to the extent that it leaves open the option of physical coercion.<sup>13</sup>

This observation introduces the broader question of the utility of military coercive power in the contemporary world political economy. The declining utility of military power brings in its wake a parallel decline in the utility of economic coercion. Either form of coercion is seen to involve risks and costs disproportionate to any expected benefits. The high visibility of such measures, the difficulties of enforcement, and the practical costs involved may be compounded by a climate of opinion which proscribes such blatant regression to intimidation and coercion, especially of the small and the

weak. But it remains important to understand that the perceived declining utility of military and economic coercion need not rule out effective, proportionate, and desirable uses where such coercion appears both workable and appropriate.

The record of economic sanctions is a spotty one. Past efforts have frequently backfired. For example, US sanctions against Cuba in the early days of the Castro regime have been criticized for inclining him inevitably toward the Soviet camp while souring relations with other Latin American nations which desired more normal commercial relations. More recently, the haste with which the United States moved unilaterally to apply sanctions to Iran in the wake of the November 1979 seizure of the American Embassy left many key allies behind and reinforced an impression of Western disunity. Failure to negotiate a framework of multilateral agreements reducing Western vulnerabilities to petroleum cutoffs made doubtful the specific exercise of leverage in the Iranian case. Compounding the problem, earlier failures to coordinate economic policies among major Western trading partners left a lingering political hostility which reduced the United States' negotiating leverage on Japan and Western Europe in pursuing concerted sanctions against the Khomeini regime.

More generally, the prerequisites for effective economic sanctions are so restrictive that little can be expected from unilateral moves which are not reinforced by a broader multilateral understanding. As Klaus Knorr has pointed out, in any instance of unilateral economic coercion, the coercer must hold a clear advantage in controlling vital goods or services desired by the target state, the target must have an intensive need for these goods or services, and the costs to the target of complying with the coercer's demands must be less than the costs of doing without the goods or services.<sup>14</sup> Frequently, in the absence of broader multilateral coordination, the target state can diversify its sources of supply (or its available markets) to nullify or diffuse the coercer's threats, as the Soviet Union proved during the ill-conceived US

grain embargo imposed by the Carter Administration.

Unilateral economic coercion by a major power may also foment unexpected consequences. Unforeseen political violence or revolution (as in Nicaragua and the Dominican Republic), political fragmentation and anarchy (as in Uganda and, perhaps, Iran), or countervailing involvement by a competing power (e.g. the Soviets in Cuba, the South Africans in Zimbabwe-Rhodesia) may follow. The results can be higher costs and diminished benefits to the coercing power. These considerations do not preclude the unilateral exercise of economic leverage, but they do argue for the preferred strategic option of multilateral arrangements to spread the costs and risks and to increase options available in the face of often incalculable consequences. Ironically, precisely that factor which has heightened the policy relevance of economic instruments—the declining utility of military power—may also constitute a serious limitation on the utility of economic power itself. Imprudent exercise of economic coercion may set in motion events no longer manageable even by traditional forms of military intervention.

A final factor complicating any strategy of economic leverage is domestic inhibition toward such policies. The United States is clearly capable of exerting economic leverage; yet one frequently finds that those

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areas of the economy which could best be exploited externally are precisely the areas of greatest domestic vulnerability and resistance. For example, US dominance of world food markets has not produced a usable "food weapon" because of the concomitant dependence of US farmers upon export markets and the enormous contribution of food exports to the overall US balance of payments. In Keohane and Nye's terms, it is undeniable that the United States possesses the requisite size, technological advantages, and relative invulnerability to enjoy a "first approximation" of power (defined in terms of the ability to control outcomes). But intervening between this first approximation of power and actual control over outcomes is the most important independent variable: political will. In the absence of strategic planning and the will to manage or influence events, the most impressive array of capabilities will find no useful employment. Evidence from the energy crisis of the Seventies supports this observation and raises disturbing doubts about the willingness of the American public to tolerate economic deprivation in pursuit of important strategic objectives. The welfare ethic of advanced industrial states has created powerful organized interest groups whose willingness to tolerate reduced economic benefits in order to secure non-economic objectives is doubtful.<sup>15</sup> Students of domestic American policymaking have painted disturbing pictures of stalemated bureaucracies which make coherent strategic economic planning virtually unattainable:

Insofar as the response to the linked traumas of Vietnam and Watergate has been a reassertion of congressional prerogatives and institutional capability without major reform of an already fragmented executive branch, the result has been an even more extreme or hyper-fragmented Madisonian governmental structure.<sup>16</sup>

Finally, even should more coherent international economic policymaking be attainable, the concentration of private wealth in sprawling transnational networks

outside the reach of traditional nation-states makes manipulation of these actors for national purposes a forbiddingly difficult task, as well as one which would be philosophically and constitutionally inappropriate within the American tradition.

With regard to the principal Western allies (the Organization for Economic Cooperation and Development members), familiar instruments of economic leverage are of diminishing importance. Instruments which have yielded advantages to industrial states when targeted against vulnerable developing countries are of little use in extracting cooperation within the family of industrialized Western nations. The number of alternative sources of funds, credits, and investments—as well as the wide range of damaging retaliatory options available to the industrialized target state—make specific economic sanctions unattractive to even the most powerful developed countries.

Thus, one can conceive of direct trade sanctions as workable only if certain conditions prevail within the society of the sanctioning state, within the bounds of the specific trading system (food, technology, nonfuel minerals, etc.), and within the society of the target state. In the case of the US grain embargo against the Soviet Union imposed in late 1979, supportive conditions existed in none of these three areas. Domestic opposition to the embargo arose within the United States, which has no governmental grain marketing board and where vested interests historically resist official intrusion into commercial sales. Nations other than the United States and transnational corporations rapidly expanded grain exports to the Soviets, in part leaking US grain to the Soviet Union. And the Soviet Union showed an ability to hold down consumption as necessary to ride out the coercive attempt.<sup>17</sup> The grain embargo did not prove to be a decisive diplomatic weapon, prompting the Reagan Administration to abandon it.

#### TOWARD A GEOPOLITICAL STRATEGY OF ECONOMIC SANCTION

Economic sanctions have generally

failed to coerce or alter target-state behavior effectively in the short run. However, this does not mean that sanctions cannot be effective as part of a long-term, broader geopolitical design to promote US power and influence as well as Western cooperation. By insulating sanctions from day-to-day events and instead enforcing the sanctions consistently as part of a global policy without regard for abrupt shifts, reactions, or the vagaries of the diplomatic climate, many of the worst defects of traditional sanctions can be eliminated:

- The costs to state A of threatening state B can be reduced by ensuring that specific costs to affected sectors are weighed against long-run, overarching strategic interests. Appropriate sweeteners to alleviate distressed sectors are more likely to find popular and public support as part of an intelligent policy clearly stated. The danger that sanctions will be perceived as shooting from the hip or as purely symbolic punishment will be eliminated.

- Calculations of the target state's vulnerability and of the degree of success achieved are different if the declared objective of the sanctions is a general retardation of power capabilities, rather than specific alterations in policy behavior. Success does not then depend on highly contingent events; instead, success of such sanctions will be assessed in the long run in terms of the overall character of the relationship.

- General sanctions aimed at altering the overall strategic balance entail less symbolic tension in the highly charged atmosphere of diplomatic confrontation. Once adopted, such sanctions operate relatively quietly and unobtrusively, reducing the chances of sudden, unexpected retaliatory responses abroad and negative domestic popular reactions.

- Linking sanctions to general objectives of security and strategic equilibrium will invite greater allied cooperation, in part because the benefits of such a policy will accrue as well to the Western allies. Low-key, behind-the-scenes policy coordination could replace the previous abrupt, vacillating, and

crisis-ridden US attempts to persuade allies to go along with the latest proposed sanctions.

- Enhanced Western solidarity in turn can positively reinforce many of these advantages: Risks can be spread, vulnerabilities reduced, and costs to target-states increased precisely because of the improved multi-lateral coordination of long-term sanctions.

To argue that overt economic sanctions are difficult to sustain is not to argue for passivity or unilateral restraint. Nevertheless, a thorough appreciation of the limitations and pitfalls of tough economic measures can contribute to a reasoned and judicious application of such measures as part of overall US power projection. Economic power does not substitute for military power. It can, under certain conditions, obviate military threats or serve as a useful adjunct to the employment of military power.

Sanctions may prove more useful as adjuncts to traditional diplomatic and military measures, rather than as substitutes for such measures. Threatened sanctions may deter or compel in concert with diplomatic, political, and military threats. Sanctions may also marginally enhance the effects of propaganda measures, symbolically punish a recalcitrant state, or simply vent national frustration in ways that contribute positively to a nation's total capacity to influence external events. Sanctions often prove most useful when they are removed, symbolically indicating the improvement of relations.

To improve the prospects for effective economic sanctions, policymakers must consider all the relevant specific policy contingencies in a given situation. A sanction which works in one context may not be effective in another. Although much has been made of the phenomenon of economic interdependence in the modern world economy, states are by no means equally sensitive or equally vulnerable. State A may share certain trade relations with state B which afford some potential for leverage. But whether state A can use this influence to a satisfactory degree, quickly, and with tolerable costs can never be known from the general proposition that "economic power may substitute for political or military power."

In addition to the need for exhaustive analysis of contingency frameworks for negative sanctions, attention should be paid to more subtle forms of economic power. Positive sanctions—rewards rather than punishments, promises rather than threats—remain a potentially crucial tool of statecraft given the continued US ascendancy in world trade, finance, and investment markets. Greater emphasis should be placed on carefully targeted bilateral foreign assistance programs, reversing the Carter Administration's emphasis on channeling aid through multilateral banks at the global (World Bank) or regional (Asian, African, and Inter-American Development banks) levels.<sup>18</sup> General economic programs to improve US productivity, especially in high-technology areas, can fuel non-inflationary economic growth which will make the United States an even more attractive market for other nations' exports, thereby increasing potential American leverage. Policies to reduce raw material vulnerabilities while simultaneously increasing US foreign investment flows to key suppliers can provide an important channel for the subtle exercise of influence over other nations.

In short, the instrument of overt economic sanctions is only one among many economic instruments for improving US power capabilities. Sound, non-inflationary, growth-oriented economic policy at home should be appreciated as a major *strategic* tool for enhancing the United States' presence abroad.

Decisionmaking procedures should therefore encourage a larger voice for the national security community within domestic and international economic policymaking arenas. The relative difficulty of attempts at economic coercion should remind us that it is imperative to incorporate security considerations into domestic economic policy as part of a concerted program for national and international economic security.

#### NOTES

1. Robert W. Tucker's illuminating discussion of this issue is found in *The Inequality of Nations* (New York: Basic Books, 1977), pp. 3-72.

2. See Andrew Scott, *The Revolution in Statecraft: Informal Penetration* (New York: Random House, 1965). The classic treatment remains E. M. Earle, *Makers of Modern Strategy* (Princeton, N.J.: Princeton Univ. Press, 1943). See also Robert Osgood, *Limited War* (Baltimore: Johns Hopkins Univ. Press, 1980).

3. A useful discussion is in Edward Luttwak, *Political Uses of Sea Power* (Baltimore: Johns Hopkins Univ. Press, 1974).

4. See John Galtung, "On the Effects of International Economic Sanctions, with Examples from the Case of Rhodesia," *World Politics*, 19 (April 1967), 378-416.

5. See the discussion in Douglas Evans and Richard Body, eds., *Freedom and Stability in the World Economy* (New York: Barnes and Noble, 1977).

6. Philip Connelly and Robert Perlman, *The Politics of Scarcity: Resource Conflicts in International Relations* (London: Oxford Univ. Press, 1975); William Schneider, *Food, Foreign Policy, and Raw Material Cartels* (New York: Crane, Russak, 1976).

7. A brief overview of the politics of monetary management may be found in J. Kelly, "International Monetary Systems and National Security," in *Economic Issues and National Security*, ed. Klaus Knorr and Frank Trager (Lawrence, Kans.: Univ. of Kansas Press, 1977), pp. 231-58.

8. For a critical overview see Teresa Hayter, *Aid as Imperialism* (Baltimore: Penguin Books, 1971).

9. Yuan-li Wu, *Economic Warfare* (New York: Prentice-Hall, 1952).

10. Klaus Knorr discusses the decision calculus particularly as it relates to the exercise of punitive military sanctions in *The Power of Nations* (New York: Basic Books, 1975), pp. 9-15.

11. C. Fred Bergsten, Robert Keohane, and Joseph Nye, "International Economics and International Politics: A Framework for Analysis," in *World Politics and International Economics*, ed. C. Fred Bergsten and Lawrence B. Krause (Washington: The Brookings Institution, 1975), p. 9.

12. In the extreme case of all-out military and economic warfare, it is virtually impossible to determine the effectiveness of the economic measures alone since their effect is inextricably mixed with the ongoing military attack. Even in this context, resourceful enemy states have evaded the worst effects of economic sanctions by seizing new areas to meet economic needs, by developing substitutes and synthetics, and by tightly rationing domestic consumption. Nazi Germany aptly illustrates these adjustment strategies.

13. Tucker, pp. 82-83.

14. Knorr, pp. 103-09. Such was clearly the situation for Iran as the target of US sanctions in late 1979.

15. Melvyn Kraus discusses several aspects of this problem in *The New Protectionism* (New York: New York Univ. Press, 1978).

16. James A. Nathan and James K. Oliver, "The Growing Importance of Economics: Can the United States Manage this Phenomenon?" in *Strategic Realities*, ed. Franklin Margiotta (Washington: National Defense Univ., 1980), p. 93.

17. All this despite conditions which seemed to promise a successful embargo. The Soviet grain harvest was about 20 percent below target levels in late 1979, and the Soviets planned to import a record 35 million tons in the coming year, with three quarters of that total expected to come from the United States. See Robert Paarlberg, "Lessons of the Grain Embargo," *Foreign Affairs*, 59 (Fall 1980), 144-62.

18. On this point see my recent discussion "Rethinking Foreign Aid," *The New York Times*, 10 March 1981, p. A19.