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Executive Summary

It is a paradox of policymaking that economic sanctions are so often imposed in the pursuit of U.S. foreign policy objectives with so little apparent success. That paradox is exemplified now by the continued reign of General Manuel Noriega in Panama and prospectively by the probable results of U.S. sanctions in response to the repression of protesters in the People's Republic of China. As of April 1988 U.S. foreign policy sanctions were in force against 27 countries,[l] and even state and local governments have begun imposing economic sanctions aimed at foreign policy goals.

To better understand this paradox it is useful to reexamine common perceptions of economic sanctions. The main conclusion of this analysis is that the chief purpose of foreign policy sanctions is to send signals and not, as is commonly perceived, to exert economic leverage. A corollary is that the pressures to impose foreign policy economic sanctions are likely to endure despite the paucity of tangible results. In light of this finding it is important that policymakers recalculate the balance of likely short-term policy gains against the harmful long-term effects of such policies on the competitiveness of U.S. industry.

Inside the Beltway the reigning study of the effectiveness of economic sanctions is by Gary Hufbauer and Jeffrey Schott, who define economic sanctions as "the deliberate government-inspired withdrawal, or threat of withdrawal, of 'customary' trade or financial relations."[2] Such sanctions are used as a "tool to coerce target governments into particular avenues of response."[3] The economic leverage discussed here is used to influence national policies or behavior that is not normally considered economic.[4] Economic leverage may be attempted by imposing export controls, import restrictions, curbs on investment, reductions in foreign aid, or freezes of financial assets. Policymakers impose such sanctions to achieve a change in some noneconomic policy, to inflict punishment in the form of economic hardship, as a "demonstration of resolve"[5] to express disapproval of some action, or to achieve some combination of these objectives.

Do Economic Sanctions Work?

The questions and arguments about sanctions that consume the most time and energy usually center on whether they work. The answer is a matter of judgment, which depends critically on how one defines their purpose. That is, economic sanctions must be judged by their success in achieving specific stated objectives. That is not an easy task, however, because the objectives can be multiple, muddled, or variable. One example is President Reagan's imposition of extraterritorial export controls on U.S. business and Western European allies in an attempt to deny equipment and technology for construction of a Soviet gas pipeline. The declared objective of the June 1982 pipeline sanctions was to induce the Soviets to lift military rule in Poland,[6] but an apparent purpose was to impede construction of a gas pipeline from Siberia to Western Europe, which some U.S. officials believed would make Europe too dependent on the Soviet Union for energy supplies. By the fall of 1982 U.S. officials had, in effect, redefined the declared policy goal and President Reagan announced on November 13 that the sanctions were being lifted as a result of "substantial agreement" on East-West issues between the United States and its allies.[7] Neither the original declared objective nor the apparent purpose of impeding construction of the pipeline had been noticeably advanced.

The Problem of Determining Success

A fundamental logic governs judgments about the success of sanctions. In cases in which sanctions are imposed to cause a change of policy, it is clear that they are not working if the desired policy change is not forthcoming--although the result may take a while to play out. However, the positive case is not so simple. Even if the desired result does occur, it may not be caused by the sanctions. In such cases there is a correlation between the sanctions and the desired result, but the causative role of the sanctions is uncertain. In political practice that logical problem is neatly finessed by policymakers who quickly declare the success of the sanctions.

An illustration of that point is the claim by former deputy secretary of the treasury Robert Carswell that the freeze of Iranian assets was successful in achieving the release of the hostages taken at the U.S. Embassy in Teheran.[8] Certainly the release of the hostages correlated with the agreement to "defrost" the assets, and hostage release was one of the stated objectives of the asset freeze. But how do we know that that was the real reason the Iranians decided to release the hostages? Carswell himself states that we cannot be certain, and he acknowledges that several other factors, such as the damaging effect of the hostage issue on Iran's effort to gain support against Iraq in the United Nations, were at work.[9] To this observer another correlation is quite suggestive--the coincidence of the timing of the settlement with the end of President Carter's term of office. After all, the most obvious motive for taking the hostages seems to have been outrage at the Carter administration's decision to grant political asylum to the shah. Perhaps the Iranians wanted a fresh start with President Reagan once their tactics had helped drive Carter from office. This explanation, based on nationalistic fervor, seems more persuasive than the dangerously simplistic conclusion that $5 billion (which is all Iran got in cash) meant that much to an anti-western regime of Islamic fundamentalists.[l0]

In cases in which policymakers' objective is to punish or cause economic hardship, the perceived effectiveness of sanctions depends on a judgment about how much economic inconvenience resulted, bearing in mind that such inconvenience is difficult to measure and that some nations have higher thresholds for economic pain than others. For example, in the Soviet Union, where coping with queues and economic inefficiencies is a national pastime and where the government imposes policies on the populace, economic hardship does not translate to the political pressures that could be expected in a western country faced with similar hardships.

For the third type of objective, a demonstration of resolve--this may be called the "signaling" objective--sanctions can be said to work merely by application unless the signal is garbled. Therefore it is missing the point for opponents of sanctions to argue categorically that they do not work, and Sen. Edward M. Kennedy is logically correct to argue that congressional enactment of economic sanctions against South Africa has some value as a message to nonwhite people living under apartheid.[ll] Indeed, clarifying U.S. policy on apartheid is a declared purpose of the legislation implementing the sanctions.[12] Such sanctions generally do send signals, although the strength and clarity of the signals and their impact on different audiences is a matter of judgment and debate. Hufbauer and Schott note that economic sanctions can send signals to three receivers: to the target country, to allies, and to domestic audiences.[13] In short, the criteria for judging the success of economic sanctions are complex, and the logic for proving one's conclusions is often indeterminate.

Sanctions Generally Ineffective

The empirical record of desired policy changes that correlate with the imposition of economic sanctions is short. In the vast majority of cases, no change in policy is achieved. General Noriega remains in power in Panama more than a year after President Reagan imposed economic sanctions to oust him in April 1988. The 1985 trade embargo against Nicaragua has not undermined the Sandinista government. The Soviet decision to withdraw from Afghanistan, signed in April 1988, was the result of Afghan resistance bolstered by American weaponry, along with determined UN diplomacy; it did not result from President Carter's 1979 imposition of economic sanctions.

When the application of sanctions does correlate with achievement of the declared policy goals, evidence of the causal role of sanctions is rarely persuasive. Hufbauer and Schott find that in most cases sanctions do not contribute very much to the achievement of foreign policy goals.[14] Despite this finding, their study tends to overstate the successful application of sanctions. One of its conclusions is that "sanctions have not been, on balance, nearly so unsuccessful as recent episodes directed against the USSR would suggest."[15] However, there is some question about the validity of that conclusion because the study shows correlations of sanctions with desired policy results. As we have seen, mere correlation does not establish the causal role of sanctions, especially if, as is often the case, there are other powerful forces, such as military or covert operations, at work. A case in point is the sanctions against Argentina during the 1982 war over the Falkland Islands.[16]

Another reason the study tends to overstate success is that it uses a rather unrigorous criterion to indicate successful application of sanctions: that sanctions helped to alter foreign behavior, that "sanctions made a modest contribution to the goal sought by the sender country and that the goal was in part realized."[17]

On balance, the very modest case that Hufbauer and Schott make for successful experience with sanctions is unconvincing. There is also the question of whether their analysis of historical cases is a valid guide for today's environment. They find that the failure rate of sanctions has been much higher since 1973.[18]

Sanctions as Costly Siqnals

Whatever the historical experience with economic sanctions, there is a good argument that we are now in a new era in which the traditional use of sanctions as a punishment or an agent of coercion is largely passe.[l9] In this era the chief use of sanctions is to demonstrate resolve. A central characteristic is that

> US Presidents seemingly feel compelled to dramatize their opposition to foreign misdeeds, even when the likelihood of changing behavior in the target country seems remote. In these cases sanctions often are imposed because the cost of inaction--in lost confidence at home and abroad in the ability or willingness of the US to act--is seen as greater than the cost of the sanctions.[20]

If the new reality is that policymakers know that 95 percent of the time they are just sending signals, then the Hufbauer and Schott recommendations for policymakers, all of which assume that the purpose of sanctions is the traditional one of forcing policy changes, are less relevant.[21]

There are several reasons economic sanctions are much more likely to be costly signals than effective economic weapons in today's environment (some of these reasons also explain why economic sanctions have been generally ineffective in the past).

Resistance of Tarqet Countries

This is an era of nationalism, and there is strong resistance to economic pressures imposed by foreign powers that challenge national sovereignty. There exists a rough hierarchy of national policy values in which economic concerns are secondary to national security and foreign policy concerns. (Of course this is not a neat division and there are interrelations; maintaining a strong economy is one component of national security.) Economic sanctions do not have leverage over such "high policy" issues; they tend to be more effective in producing concessions of a similar economic kind, for example, eliminating preferential access to the U.S. market for Korean goods unless the South Korean government permits U.S. insurance companies to enter the Korean market. In the words of the children's choosing game, the economic sanction scissors do not cut the rock of high national priorities

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Because of the hierarchy of policy values, governments that wish to remain in power must be able to demonstrate that they are not vulnerable to externally imposed economic pressures. That explains why economic sanctions, regardless of the economic hardship induced, often have the counter- productive result of strengthening the resolve of the target government to maintain its objectionable policy. Despite their shattering impact on the Panamanian economy, the U.S. sanctions aimed at ousting Noriega have encouraged the unpopular leader to consolidate his control. Those sanctions have had an economic impact that is rare in the history of sanctions efforts: the Panamanian economy is closely tied to the U.S. economy (Panama uses the U.S. dollar as its currency), and the sanctions have caused the indefinite suspension of Panama's role as the Caribbean's most important banking center and inflicted severe damage on the economy. Yet Noriega, supported by the Panamanian military, remains in control.

Another variety of counterproductive result has a similar origin. In an attempt to impose economic sanctions that effectively deny goods to the targeted country, U.S. officials may try to effect an extraterritorial reach of U.S. law to control exports or actions of companies outside the United States. For the same reason that nations resist foreign economic pressures, nations do not tolerate this kind of challenge to the sovereignty of their laws and foreign policies. Often a conflict-of-laws imbroglio, which the United States eventually loses, ensues. The extraterritorial reach of the 1982 gas pipeline sanctions sparked such bad will between the United States and NATO allies that the sanctions were repealed within five months, with no tangible results. As Moyer and Mabry point out, the extraterritorial grasp in this case was unusually aggressive; it affected wholly foreign-origin goods and unaffiliated foreign companies.[22]

The frictions caused by extraterritorial foreign policy sanctions are especially acute because, as Pratt notes, other governments do not usually impose such sanctions.[23] (In the case of national security export controls, allies frequently have similar policies, which explains why extraterritorial tensions are generally less for national security policies.) This may be because other government leaders are fully aware of the limited power of sanctions against higher national values and because they do not perceive the same need to "demonstrate resolve."

Global Market Dilutes Sanctions

A second reason economic sanctions rarely cause policy changes or inflict meaningful punishment is that in today's global economy they rarely have a significant economic impact. Actions by one government to deny economic goods or services to another country generally do not succeed because of the availability of goods or substitute goods from other source countries. The Soviet Union got its grain despite President Carter's embargo. The leakage in the Carter grain embargo, as explained by Robert Paarlberg, may be the model for most unilaterally imposed sanctions, not just for those affecting agricultural commodities.[24] Even sanctions imposed by coalitions of countries have a way of being compromised by market forces. It is extremely difficult to get all nations to enforce a sanctions policy, and the few that do not become conduits for market activity. South Africa and Portugal opposed the "mandatory" UN sanctions imposed against Rhodesia in 1968 and became major channels for imports and exports to and from the targeted country. Hufbauer and Schott also point out that nonmarket forces in the form of interventions by other nations in support of the targeted country can be an important cause of ineffectiveness.[25] Most sanctions efforts to restrain trade, even multilateral ones, tend to leak.

Injuring the Innocent

The indiscriminate distribution of the economic costs of sanctions is another factor that limits their effectiveness. In target countries any economic costs inflicted may fall on the elements of the population that the sanctions are designed to support; that is the case in South Africa where diminished U.S. business presence brings hardships and loss of economic opportunity to former black employees and other blacks who benefited from programs sponsored by those companies. U.S. sanctions reportedly have severely damaged the economic welfare of Panamanians, and there are some reports that the resulting economic hardships are turning Panamanians against the United States, even though popular support for Noriega apparently remains low.[26]

The implementing country also pays. The United States is so thoroughly integrated into the global economy that economic sanctions always entail economic costs for some American interests (even reductions in foreign aid mean forgone opportunities for U.S. trade and investment). Occasionally, economic costs can generate enough political pressure to bring repeal or modification of the sanctions. Reagan's repeal of the Carter grain export restrictions only 15 months after they were imposed to protest the Soviet invasion of Afghanistan is the major example to date. The nature of economic costs to the implementor is examined in more detail below.

Why Sanctions Will Remain Popular

If foreign policy economic sanctions have such a poor record of causing policy changes or inflicting economic punishment, and if they are invariably costly signals, why are they repeatedly imposed and increasingly popular? The answer lies, in part, in the policymaking dynamic that leads to their imposition.

Decisions to impose economic sanctions are generally triggered by a new policy or act by a foreign government or by the latest episode in a generally odious situation that has been building for some time, as in the case of the sanctions imposed against South Africa. There is either tangible pressure manifested in lobbying or perceived political pressure to make some kind of response, at least to demonstrate disapproval. The pressure to respond is particularly heavy on the U.S. government that is perceived by many, including its own leaders, as the moral leader of the West. The United States is perceived as condoning the undesirable action if it does not offer an official response, and there is usually a sense of urgency.[27] In the case of sanctions imposed by the executive branch, there is a premium on being able to announce a definite response and to preempt less desirable responses such as congressional action, in the form of statutes that will reduce policymaking flexibility, or longshoremen's refusal to load ships.[28]

An Alternative to Diplomatic or Military Action

Policymakers review menus of possible responses that are often rapidly prepared. Military responses are usually ruled out as too drastic or unviable; for example, there is widely reported Pentagon opposition to military action against Noriega. Among the the remaining possibilities, economic sanctions usually appear tougher than traditional diplomatic moves that are widely perceived as weak. Moreover, there may be arguments that it is necessary to keep diplomatic channels open or to maintain intelligence sources in the targeted country. There may also be a need to demonstrate that the grievance is so serious that the United States is not afraid to rise above its commercial interests--that it is willing to make economic sacrifices to make its policy point (consistent with the rough hierarchy of values posited above).

Economic responses loom large on the list and within this category some types of sanctions loom larger than others. For example, grain export controls leap out from any list of economic measures against the Soviet Union because grain sales generally account for the lion's share of U.S. exports to the Soviets and because Soviet harvests are so unpredictable. (In 1979 U.S. grain and soybean exports accounted for about 77 percent of the total value of U.S. exports to the USSR-[29])

Typically, there is little chance to thoroughly explore the possibility of multilateral cooperation, to determine availability of the denied goods in the global marketplace, or to consult with affected U.S. businesses. While there is relatively little written on the decisionmaking that underlies various economic sanction policies, the outlines of the dynamic are suggested by Carswell:

> Foreign policymakers do not always give weight to the appropriateness, or cost-effectiveness, of the imposition of a unilateral economic sanction by the United States. Rather than work through rigorous analysis, they justify the imposition of a sanction by some variation of sonorous themes: some action is necessary; there is no other appropriate response available, a political or military response is too risky; the United States must show leadership and it will take too long, or it is too doubtful a prospect, to attempt a coordinated response with one's allies.[30]

There is a slight variation in the case of legislative actions (including those of states and municipalities) to impose sanctions. A period of mounting political pressure usually precedes completion of legislative action. There is time for consideration of arguments and costs. Affected business interests are able to make their case and sometimes succeed in gaining favorable adjustments, although their economic arguments are usually overwhelmed by the pressures for action.

Indirect Costs of Sanctions

In both cases sanctions are imposed in pursuit of a national policy and have some properties of a public good (a good provided by government expenditure that is collectively consumed) similar to national defense. The chief difference is that, unlike most public goods, the government does not pay directly for the sanctions, and the great attraction for policymakers is the appearance of a decisive response that is often without direct short-term costs to them or to the public at large. Yet costs do exist, and they are usually borne disproportionately by particular sectors or businesses.

U.S. companies are harder hit by economic sanctions than are foreign governments. Although economic sanctions are rarely powerful enough to sway the policy of a foreign government (or to inflict much economic hardship), they can be very punishing or even destructive to specific domestic sectors or businesses, especially when competitiveness requires maintaining global market shares and access to foreign resources.

Competitiveness, for example in high-tech goods, usually requires a long-term relationship with a customer. As George Shultz, speaking as president of the Bechtel Company, put it, "major commercial relationships cannot be turned on and off like a lightswitch; they have to be built up and sustained over a period of time."[31] An example of the direct and more easily estimated costs imposed on an industry by sanctions is the impact of the January 1986 Presidential Order ending U.S. commerce with Libya, which is estimated to have cost five U.S. oil companies between $2 million and $25 million per company in annual revenues plus the loss of equity in hundreds of millions of barrels of oil reserves.[32] In addition, loss of future business usually represents incalculable severe long-term costs to companies.

Each sanctions episode stamps a larger "unreliable supplier" label on U.S. companies. The most serious example of potential impact is the recent Panama sanctions for which the president for the first time used the authority of the International Emergency Economic Powers Act to direct American- owned companies incorporated in a foreign country to disobey local tax law by paying their taxes into an account at the New York Federal Reserve Bank.[33] Such actions will brand American subsidiaries around the world as potential violators of local law and therefore as unreliable suppliers. That is why the business community has come to view foreign policy economic sanctions as economic weapons against U.S. business, not against foreign governments.

The skewed distribution of costs entailed by economic sanctions can generate a political pattern that is the reverse of the one typical of trade policy issues. Often, in the politics of trade, a sector under pressure from foreign competition (fair or unfair trade) is able, by virtue of a strong lobbying campaign on the part of its highly motivated members, to get protective legislation passed. Such protection imposes indirect costs on the economy at large, but those costs are so thinly distributed that the majority political interests are not mobilized to resist. In a sanctions case the general public is mobilized or perceived to be mobilized by policymakers so that sanctions can be imposed over the protests of the specific sectors that will bear the costs (the sanctions policy may be so popular that the affected interests endorse it or at least do not challenge it).

Gradually, however, political pressures revert to the usual pattern for trade policy issues. General public interest wanes; interests of specific sectors grow more intense and eventually may force repeal of the sanctions even if the declared goals have not been achieved. The Reagan repeal of the Carter grain export restrictions demonstrates the shifting political dynamic that can undermine sanctions policies over time. That is an unusual case because of the political strength of the farm sector, which bore the costs of the sanctions.

Public and Leqislative Pressures

Secular trends have multiplied the number of economic sanctions episodes, and there are now more policy actors. Since the Gulf of Tonkin Resolution of 1964, Congress has generally been more aggressive in foreign policy issues, challenging the executive branch with its own foreign policy agenda and instruments. More recently, state and municipal governments have become foreign policy activists.

State and local governments have imposed a variety of foreign economic sanctions, which frequently take the form of procurement bans or divestiture requirements. The chief example is the growing welter of measures targeted against South Africa, such as the Baltimore ordinances that require city employee pension systems to divest their holdings in companies that do business in that country. There are also state and local proposals designed to influence affairs in Northern Ireland by imposing MacBride principles.

The elevation of human rights and terrorism as foreign policy issues has created more foreign policy objectives. Greater public awareness and involvement are being stimulated, in part, by more focused media coverage, especially TV coverage, and by the spread of sophisticated grass-roots lobbying and organizational techniques based on computer-assisted mailing networks. The result is that more political leaders at all levels of government are hearing more frequently from constituents on a greater number of foreign policy issues, especially human rights issues.

Legislators appear to find it easy to vote for sanctions because such votes are often "free" in both political and budgetary terms,[34] and they find it difficult to vote against sanctions because that often means voting against popular causes and risks damaging constituent support. In other words, they appear to be compelled to vote in a way that sends reassuring signals to domestic audiences (one of the three receivers noted by Hufbauer and Schott). Frequently, this signaling to constituents takes the form of nonbinding resolutions that do not actually implement sanctions. For example, the entire Senate voted for a nonbinding resolution urging President Bush to take a number of actions against China, but the effort to legislate sanctions in addition to those imposed by the president is, at this writing, ongoing and uncertain.

In the give and take of legislative deal making, sanctions proposals from one group have a demonstration effect: they stimulate proposals directed at different targets; such proposals may be made in part for bargaining purposes. An amendment to add a rider to debt ceiling legislation that would deny tax benefits to corporations operating in Angola may encourage addition of a measure to withdraw trade benefits from Chile until that government makes progress on human rights. When Congress does legislate sanctions, as in the passage of the 1986 Anti-Apartheid Act over President Reagan's veto, conflicting signals about U.S. policy are sent to the target country. That is particularly counterproductive if one believes that the main value of sanctions in today's environment is as signals, which places a higher premium on actions that send clear signals.

Suggestions for the Business Community

Given the motivations for economic sanctions described above, the business community must be prepared for the present trend to continue. Sanctions will continue to be popular, and business interests will be secondary because economic issues cannot compete with high-policy issues, at least in the short term. The presidential decision pattern for sanctions is also likely to remain similar, dominated by high- policy concerns and driven by the special demands of America's role as the free world leader. The imperatives for a quick response, and the concomitant short shrift given the economic costs entailed, can be expected to persist. Even experienced policymakers who know about the limited power of sanctions will continue to impose them for signaling purposes, despite their economic costs.

Congress cannot be expected to act as an effective check on the executive in this regard. The politieal mood of Congress is too pro-sanction and is likely to remain so in the foreseeable future. Indeed, the issue may be more a question of getting the exeeutive branch to restrain Congress. (When Congress is unenthusiastic about sanctions, it is often too divided to stand up to a president determined to impose such measures.)

Moreover, when Congress does tighten legislative restraints, it merely strengthens the resolve of the executive branch to skirt them in the next crisis. Presidential authority to impose foreign policy economic sanetions is based generally on two laws, the Export Administration Act (EAA) and the International Emergency Economic Powers Act (IEEPA). In 1985 the EAA was amended to bolster the procedural steps that the president must take before imposing foreign policy export controls. Those steps include consultations with Congress, determinations of national interest, and appraisal of alternative sources. Since the EAA was amended, the president has tended to rely more on the IEEPA (e.g., for the 1986 sanctions against Libya and the 1988 sanctions against Panama), which lacks the procedural requirements now in the EAA. The IEEPA provides for a broader range of economic sanctions, although it requires the president to make a finding of emergency for the national security, foreign policy, or economy of the United States.

The executive branch views efforts to legislate restraints as challenges to the president's authority to make foreign policy, which cannot be compromised. For this reason it seems likely that the procedural requirements and restrictions on executive branch authority that have been added to the EAA over the years are of marginal value.

The episodic and fast-moving dynamic that is characteristic of sanctions decisions hampers business community efforts to mitigate the damage. In the lulls between sanctions episodes, generic arguments against sanctions are not persuasive, and policymakers are preoccupied with other matters. Then, suddenly, an incident provokes a sanctions decision and there is little time for consultation with business, if consultation is even sought, and by then the fractious nature of the business community is often revealed, with the majority unwilling to commit high-level resources to argue the case of the few firms that will bear the brunt of the costs. Also, it is usually difficult to argue against a specific action without appearing to reject the popular perceptions of national interest and moral obligation.

To address this problem the business community needs a continuous, two-pronged approach. It should continue its efforts to educate Congress and to enact better legislative restraints on the executive, for example by incorporating the procedural provisions of the EAA into the IEEPA, while recognizing that the results are likely to be marginal. However, business should direct its main effort at the executive branch, which makes most of the sanctions policy decisions, with special focus on new policymakers such as midterm cabinet replacements and new administrations.

In both arenas the business community should refine its arguments beyond the simplistic "sanctions will not work" arguments to address the signaling role of sanctions. It should continue to make its case for minimizing the economic impact of foreign policy sanctions through contract sanctity guarantees and compensation. (Alexander Cohen and Joseph Ravitch have provided a good discussion of the legal arguments for compensation of this kind of taking for public purpose under the just compensation clause of the Fifth Amendment.[35]) The business community should also continue to argue for a cost-benefit approach that considers alternative policy options, including diplomatic actions. It should document as well as possible the economic costs that fall on specific sectors or companies and the damage to U.S. competitiveness, and it should stress that policy should be made by the national government, not by state and local governments. These messages should be delivered consistently to high levels of government and to the public before the next sanctions episode arises. In addition, a mechanism for last-minute consultation with business should be set up. During sanctions episodes the business community should encourage better public understanding of the costs and actual effects of specific actions.

One way to organize a continuous effort of this kind would be to have a standing committee of an existing organization focused on this issue. The Business Roundtable, which commands high-level business participation, might be a suitable organization. A small staff would collect data, prepare position papers, and act as a watchdog; the chairman and members of the committee composed of chief executive officers would make regular presentations. Committee membership would be rotated in accordance with common practice. In this way business would continually communicate its position to the highest level, and a single group would act as the business spokesman addressing the generic problem between sanctions decisions. In future sanctions episodes, CEOs could use this platform to make their case to the White House on short notice.

The costs and benefits of this approach cannot be accurately projected. One thing is virtually certain: once established, a foreign policy sanctions committee would not lack work because the hierarchy of values and policy dynamics described above will continue to bring pressures for foreign policy economic sanctions. Presumably, those pressures will also limit the positive results of such efforts. The cost of such a program would be low in comparison with the stakes involved for the business community.

Realities Facing Policymakers

The nature of economic sanctions has several specific ramifications for policymakers. First, policymakers should recognize that sanctions are almost always signals or gestures rather than pressures that will force high-policy changes: they are congenitally weak policy levers, not effective "economic weapons" against foreign governments. Policymakers should not overstate the economic force of sanctions or their expected results.

That means that as policy instruments economic sanctions do not offer substantially different leverage to achieve goals than do "weak" diplomatic actions, and selections from options menus should not be based on the lingering misperception that they do. Alternative diplomatic signaling options should be reconsidered. In general, these may be expected to send the message with less economic cost to the implementor, and they are easier to control. (There is, of course, the possibility that less costly signals will be perceived as less serious responses than signals that involve more sacrifice.)

Second, the degree of economic discomfort inflicted will vary from situation to situation but is likely to be merely a minimal readjustment of trade patterns unless the sanetions are multilateral in nature, and even multilateral sanetions will have weak economic leverage because of leakage.

A third consideration for policymakers is that economic sanctions are an unwieldy instrument, which may diminish their utility as signaling devices. If the economic costs to the implementing country are high enough, sanctions may be unsustainable. There is also the awkward business of lifting sanctions if the targeted policy has not changed. The severity of the economic costs inflicted on the target country is difficult to predict and such costs are indiscriminate; they may fall heavily on the very elements of the population the sanctions are designed to support, as is the case with the sanctions against South Africa mentioned above. Also, once deployed, the signaling apparatus is locked in a fixed position. This is especially true if the sanctions are enacted by statute rather than by executive order. Economic sanctions imposed to achieve noneconomic objectives cannot be used to pursue achievable economic goals; normal economic bargaining is constricted.

Fourth, attempts to impose foreign policy sanctions extraterritorially should be avoided. The conflict engendered by extraterritorial reach is likely to hasten the lifting of the sanctions and distort the signal for at least one audience, and the additional leverage to be gained is likely to be marginal.

Fifth, if signaling is the main purpose of sanctions, it is important that there not be conflicting signals. It is necessary to fully control policy at the national level so that state and local actions do not garble the message. Signals will be clearest when there is enough political unity on the issue to keep Congress from grappling with the executive branch for control of policy. Congress, for its part, should not try to force sanctions on the executive branch because that results in mixed signals. Congress should rely on non- bindinq resolutions for sending signals to domestic audiences.

In general, policymakers should be more sensitive to the cost-benefit approach to sanctions decisions. Of course, the costs of doing nothing, which are political, cannot be accurately measured against the economic costs of applying sanctions, and in view of the hierarchy of policy values, the perceived high-policy costs will tend to outweigh the economic. Policymakers should bear in mind, however, that the same hierarchy of values that dictates a sanctions response in spite of economic considerations also motivates the target country to ignore and counteract the effects. For this reason and others mentioned above, policymakers should be aware that any political gains are limited to signal sending and that they must be balanced against economic costs that are invariably understated for reasons of haste, poor data, and uncertainty about the future. The value of cancelled contracts can be estimated, but the future cost of a sanction in terms of lost market share or a reputation as an unreliable supplier is impossible to document. Nevertheless, policymakers should consider that repeated resort to economic sanctions will have a long-term negative impact on U.S. competitiveness, which is an essential element in achieving important national goals such as a strong economy and defense capabilities. Sanctions policies trade off those long-term interests for short-term political interests.

Conclusion

Whatever the past utility of economic sanctions may have been, this is a new era in which their chief value is as a foreign policy signal, not an economic lever. The burden of proof lies on those who wish to demonstrate that economic sanctions can persuade nations to change important national policies. It is time to move the debate beyond whether sanctions work in the traditional sense, to more realistically balance the long- and short-term costs of sanctions, and to achieve a better awareness of the collective interests of the nation in avoiding frivolous, misguided, and counterproductive application of sanctions.

Footnotes

The views expressed here are the author's own and do not necessarily reflect those of the U.S. Council for International Business. He wishes to thank Pamela B. Gavin, Robert J. Morris, and Paul H. Pratt for their comments on an earlier draft.

[1] Congressional Research Service, "U.S. Foreign Trade Sanctions Imposed for Foreign Policy Reasons in Force as of April 10, 1988," April 13, 1988, pp. 8-20.

[2] Gary Clyde Hufbauer and Jeffrey J. Schott, Economic Sanctions Reconsidered: History and Current Policy (Washington: Institute for International Economics, 1985), p. 2.

[3] Ibid., p. 9.

[4] The application of economic leverage to achieve economic ends, for example, in disputes over unfair trade practices, is referred to as commercial diplomacy, or trade war. That is not the application of economic sanctions discussed here, nor are we talking about export controls imposed for national security purposes. The latter distinction, which is embodied in the Export Administration Act, is somewhat arbitrary, and many of the characteristics of economic sanctions discussed here also hold for national security export controls. One practical distinction is that business groups rarely challenge national security controls in principle because they have a higher and universally supported national priority.

[5] Hufbauer and Schott, p. 9.

[6] President Reagan, "Statement on Extent of U.S. Sanctions on the Export of Oil and Gas Equipment to the Soviet Union," June 18, 1982, quoted in Homer E. Moyer, Jr., and Linda A. Mabry, "Export Controls as Instruments of Foreign Policy: The History, Legal Issues and Policy Lessons of Three Recent Cases," Law and Policy in International Business 15, no. 1 (1983) : 69.

[7] Moyer and Mabry, pp. 83-84.

[8] Robert Carswell, "Economic Sanctions and the Iran Experience," Foreiqn Affairs 60, no. 2 (Winter 1981-1982): 247-65.

[9] Ibid., p. 247

[10] Ibid.

[11] Edward M. Kennedy, "The Sanctions Are Working," Washington Post, October 16, 1987, p. A23.

[12] One of the stated purposes of the act is to "set out United States policy toward the Government of South Africa." Public Law 99-440, October 2, 1986. 100 Stat. 1089.

[13] Hufbauer and Schott, p. 10.

[14] Ibid., p. 79.

[15] Ibid., pp. 11-12. They find that not quite half the cases involving "modest policy changes" showed that the sender country made some progress in achieving its goals through the use of economic sanctions. See also p. 42.

[16] Ibid., p. 89. Hufbauer and Schott find "little evidence that covert and military action, when used in parallel with economic sanctions, tips the scales in favor of success." However, in 16 of the 38 cases they classify as successful, they find such factors present (my calculations). See pp. 48-55. For example, they find that military measures were obviously the decisive factor in the successful policy outcome for the United Kingdom in its war with Argentina, but they also rate economic sanctions a modest success because they impeded the Argentine military effort. See p. 724. In addition, the best equation they could come up with had variables that explained only 21 percent of the result (p. 99), which suggests the powerful influence of factors not included in the model.

[17] Ibid., p. 33. Bruce Bartlett has also mentioned their loose definition of success. See Bruce Bartlett, "What's Wrong with Trade Sanctions," Cato Institute Policy Analysis no. 64, December 23, 1985, p. 2. Hufbauer and Schott elaborate: "Successful does not mean the target country was vanquished by the denial of economic contracts or even that the sanctions decisively influenced the outcome." If we use their most stringent criterion--that sanctions made a significant contribution to a positive outcome--there are only 11 successful applications in 108 cases, of which 6 successes in 52 tries involve sanctions unilaterally imposed by the United States. Interestingly, as Paul Pratt suggested to me, five of the six successful U.S. cases involved withholding foreign aid or commercial finance; four of the six were aimed at what Hufbauer and Schott classify as "modest changes in policy."

[18] Ibid., p. 42. Hufbauer and Schott find "success" in 18 of 44 cases involving "modest policy changes." Their

statement about an increased "failure" rate since 1973 is based on their data that show 9 successes in 14 such cases through 1973 and only 9 successes in 30 cases since 1973.

[19] Moyer and Mabry, p. 156. This conclusion is supported by the Reagan administration's arguments for maintaining existing foreign policy export controls. See The Secretary of Commerce's Annual Report to Conqress on the Extent of Foreign Policy Controls, January 1987, as quoted in Paul H. Pratt, "The Need to Reassess the Use of Export Controls for Foreign Policy," memorandum, Machinery and Allied Products Institute, Washington, D.C., August I987, pp. 15-16. Among the arguments one finds the following phrases: "this symbolic aspect," "to demonstrate the determination of the United States to oppose," and "will publicly convey U.S. opposition to."

[20] Hufbauer and Schott, p. 9.

[21] While they recognize the use of sanctions for signaling purposes (the "demonstration of resolve" motive in their terms), all their prescriptions for success are for sanctions imposed to coerce governments into particular avenues of response. They do not analyze the effectiveness of sanctions for signaling purposes. Ibid., pp. 9, 72-92.

[22] Moyer and Mabry, p. 110. Those sanctions imposed controls on exports of wholly foreign-origin goods by foreign subsidiaries of U.S. companies and imposed retroactive controls on exports by unaffiliated foreign companies of foreign-origin products manufactured with U.S. technology under license.

[23] Pratt, p. 5.

[24] For a description of the leakage see Robert Paarlberg, "Lessons of the Grain Embargo," Foreiqn Affairs 59, no. 1 (Fall 1980): 144-62.

[25] Hufbauer and Schott, p. 11.

[26] One such recent report is by William Branigin, "U.S. Firms Seek Changes in Panama Sanctions," Washington Post, April 14, 1989, p. A18.

[27] A common pattern is a rapid announcement of initial sanctions, which are then supplemented or escalated by a series of subsequent measures. See the description of sanctions measures taken against Iran and the Soviet Union in Moyer and Mabry, pp. 10-14, 28-42, 64-74.

[28] The International Longshoremen's Association (ILA) has a long history of attempting to make its own foreign policy through application of economic sanctions. As far back as the 1950s it refused to load or handle products destined to or coming from the Soviet Union. It refused to load cargoes destined for Iran after the hostages were seized (Carswell, p. 253), and it blocked all grain exports to the Soviet Union after the invasion of Afghanistan (Paarlberg, p. 146).

[29] Based on data from the U.S. Department of Commerce, Highlights of Export and Import Trade, FT 990, December 1979, and U.S. Department of Agriculture, Foreign Agricultural Trade Statistics, FATUS, 1979. My calculations, which include soybean meal and oil.

[30] Carswell, p. 257.

[31] George P. Shultz, "Lightswitch Diplomacy," comments to the Business Council, Hot Springs, Va., October 14, 1978, P. 8.

[32] General Accounting Office, "International Trade: Libya Trade Sanctions," May 21, 1987, p. 17. As Pratt notes, in a strict sense the embargo against Libya was not entirely a foreign policy sanction because it was implemented under the authority of the International Emergency Economic Powers Act instead of the foreign policy authority of the Export Administration Act. See Pratt, p. 10.

[33] "Foreign Economic Sanctions: Abuses and Remedies," unpublished paper of the Rule of Law committee, May 19,

1988, pp. 2-3.

[34] The future costs of pork-barrel spending are suggested by noticeable increases in the budget deficit; there are no similar indicators of the future costs of reduced competitiveness. Pork-barrel spending produces local goods at the collective cost of a larger budget deficit, which is paid for by all in the long term; economic sanctions are a collective good that is paid for by an industry or a few individual companies in the short term and by all in the form of reduced U.S. economic competitiveness in the long term.

[35] Alexander F. Cohen and Joseph Ravitch, "Economic Sanctions, Domestic Deprivations, and the Just Compensation Clause: Enforcing the Fifth Amendment in the Foreign Affairs Context," Yale Journal of International Law 13, no. 146 (1988): 146-70.