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U.S. Needs to Get Real, Sanctions Don't Work

By Mark Adomanis

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What in the United States is called conservatism and in Europe is usually called classical liberalism, generally has a very astute awareness of the unintended consequences of government intervention in the economy. Every aspiring free marketer has read, or at least gives the impression that they have read, the parable of the broken window and has familiarized themselves with the unseen costs of taxes, regulations and bureaucratic fiat.

Efforts that at first glance might appear the very definition of simplicity, say the promotion of home ownership through the subsidization of mortgage interest payments, in practice have any number of unintended, and often perverse, consequences. It can be taken too far, of course, but conservatives tend to have a healthy degree of skepticism about the state's practical ability to achieve desirable social ends. Social policy, in their view, is never a simple tale of "the government wants to do X, so it passes a law mandating X." Things are never that simple.

The problem is that many of these same people, who as noted previously tend to inhabit

the right side of the political spectrum, are remarkably trusting in the state's ability to successfully achieve a wide range of complicated policy goals in other countries. Their skepticism of government intervention somehow doesn't extend to foreign policy.

Thus you have the seemingly strange spectacle of people who, on the one hand, will argue that the provision of affordable health insurance is entirely beyond the state's capacity simultaneously arguing that, by imposing targeted financial sanctions, the United States can fundamentally change the Russian government's foreign policy.

But just as in domestic policy, foreign policy also has any number of unseen costs and unintended consequences. What may look very simple — sanction Russia so that it stops meddling in Ukraine — is, upon closer examination, not very simple at all.

This was exactly the point that Bernard Sucher and Samuel Charap made in an outstanding editorial they recently wrote for the New York Times. They astutely noted that even though Western sanctions were intended to target nasty state-owned firms like Rosoboronexport, Rosneft and Gazprom, in reality sanctions have most seriously impacted private enterprise.

It is easy to see why. Huge state-owned firms are politically connected and, in a crisis, will be able to leverage their political connections to get privileged access to resources. To simplify things just a bit: When Rosneft has a cash crunch it can go raid the National Welfare Fund. When a small privately owned Russian company has a cash crunch it goes bankrupt.

Thus a sanctions regime that was intended to punish the "bad" parts of the Russian economy and to "extract a cost" from Putin's cronies has, in the real world, had the practical impact of making the Russian economy even more reliant on its retrograde state-owned natural resource extractors. You could not find a more perfect example of the law of unintended consequences.

Does this mean that sanctions are necessarily a bad idea? No. You could still make a perfectly reasonable argument that the principles at stake, Ukraine's territorial integrity and the general sanctity of international borders, are of such overriding importance that they are worth almost any cost.

You could even argue that although in the short term Russia's economy will be more thoroughly dominated by the government, in the long term sanctions will eventually succeed in toppling the system. There are reasons to doubt that, particularly considering the experience of Iran under a much more comprehensive sanctions regime, but it is an argument worth having.

But what is clearly not true is that the West's, and particularly the United States', policy toward Russia is a simple matter of achieving desired ends through chosen means. Policy isn't created in a vacuum, it's created in a messy and complicated world where the other side inevitably readjusts and reacts and where we have limited insight into the consequences of our own decisions. We sanction Rosneft, the Russians subsidize it, and life goes on.

Consider, as another example, the idea of delivering weapons to Ukraine. Proponents of this policy argue that if we send Ukraine weapons then the Ukrainian army will become more competent. This increased competency and fighting strength will "increase the costs"

of Russian intervention and therefore bring an end to the conflict. In other words: We give Ukraine weapons, Ukraine uses those weapons, more Russian troops die, and Russia changes its policy.

In domestic policy this is roughly the equivalent of arguing that the best way to raise average incomes is to pass an extremely high minimum wage. Any delivery of weapons to Ukraine would, quite obviously, cause a change in Russian strategy, likely one that the West wouldn't find very appealing. That's not an "apology" for Russian intervention, it's just stating the plain truth that, in the real world, there are always second- and third-order consequences.

Russia's strategy in Ukraine isn't a static entity that we can target from a safe distance, but is dynamic, adaptable, and constantly changing: If we give the Ukrainians weapons the Russians aren't just going to sit there.

There are any number of debates to be had about the proper way to approach Russia. Given Moscow's deplorable actions over the past year, many people will come to the decision that confrontation is the only acceptable strategy, and that the West must be much more hard-nosed in its policy.

That is all well and good. But as they formulate that policy, hawks would be well advised to keep in mind their skepticism about the government's ability to achieve its desired goals and the tendency of the real world to thwart our intentions. Mark Adomanis is an MA/MBA candidate at the University of Pennsylvania's Lauder Institute.

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