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INTERNATIONAL ECONOMIC SANCTIONS

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INTERNATIONAL ECONOMIC SANCTIONS*

Donald L. Losman, *International Economic Sanctions*, University of New Mexico Press, Albuquerque, New Mexico, 1979, pp. xi, 156, \$12.95

This slender volume, an earlier draft of which was the author's doctoral dissertation, raises good questions, provides answers that seem to me correct and, along the way, recounts three useful case studies (of sanctions applied against Cuba, Israel, and Rhodesia). If Losman occasionally misses the forest in the trees, and perhaps misstates a point here and there, these are minor cavils in an otherwise informative and timely work. The subject of economic sanctions has, of course, gained in pertinence because of their consideration in retaliation for Iran's breach of international law in seizing American hostages and the American Embassy.

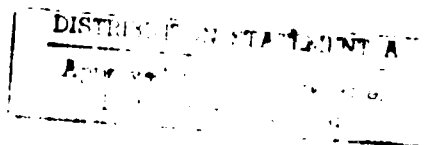
Two principal questions are considered by the author: How do economic sanctions ("boycotts") operate?^{**} How effective are they?

His answer to the first is the obvious one that sanctions operate by imposing economic costs, "without resort to armed force," in order to "induce or compel [a] country to more acceptable behavior in the eyes of the boycotting states."

In addressing this question, Losman provides a brief review of neo-classical international trade theory. Generally, countries trade with one another because their differing relative costs of production enable them to realize mutual gains. By importing goods and services in which a country's relative costs of production are high, and exporting goods and services in which its relative costs are low, the country's real level of income will be increased, as will that of its trading partners.

* Prepared for publication in *Survival*, Spring 1980.

** Although the two terms are used synonymously, the former is really broader; for example, freezing of a country's assets, or attempting to block loans or capital inflows, are forms of economic sanctions that wouldn't normally be covered by the term associated with the 19th century Irish tenants' retaliation against Captain Charles Boycott.



Sanctions then seek to shut off this trade by collective, but non-military, action on the part of the trading partners, and designedly by potential partners as well. The result is to impose costs on the targeted country, assuming that the sanctions are effective. Losman divides the costs into direct costs, indirect costs, "capital effects," and "foregone [sic] potential costs." By "capital effects" he means the lowered productivity or reduced utilization of a country's capital stock that may result from its inability to import spare parts or intermediate products as a result of sanctions. The term seems to me redundant because it is already implied by "indirect costs." (In my judgment, the book's theoretical structure would be improved by a different interpretation of capital costs: namely, shutting off a country's access to capital from abroad which may, in some cases, be an effective way to restrict its ability to import).

Losman's answer to the second question is provided through three case studies of sanctions: applied against Cuba (by the U.S. embargo of 1960 supported, though not always strictly, by most Western Hemisphere countries until 1975); against Rhodesia (on a global basis by the United Nations from 1965 until 1979); and against Israel (by the Arab countries, since the establishment of the state of Israel, but especially since the early 1960s, when the Arab countries applied boycotts against business firms doing business with Israel, as well as against other firms doing business with these firms).

The case studies are informative and useful. They embody the author's careful efforts to identify and quantify the various types of costs imposed on the target countries by the economic sanctions against them. Losman concludes that, in all three cases, sanctions were effective in imposing economic costs, and "unsuccessful in producing its political ends." In arriving at this conclusion, he estimates that actual costs imposed by sanctions were "clearly the greatest" in the Cuban case, smaller but still "significant" in Rhodesia, and "considerable in terms of foregone potential" in Israel.

I think Losman's main conclusion, concerning the limited political effectiveness of sanctions, is correct. However, I'm inclined to think

he overestimates, and in the Cuban case perhaps misconstrues, the economic costs actually imposed.

In the Cuban case, I believe a more complete accounting than he provides would suggest that the immediately evident ("direct" as well as "indirect") costs of the embargo have been fully borne by the Soviet Union. If one were to calculate the total volume of Soviet economic aid (including allowance for the subsidized barter price of sugar), as well as subsidized Soviet military aid (which Cuba would presumably have paid for, in the absence of the subsidies), I suspect it would actually exceed the direct and indirect costs, as well as "capital effects," of the U.S. embargo. That the performance of the Cuban economy has been so dismal--between 1960 and 1971 Cuba's real GNP declined at an annual rate of 1.2 percent--is, I believe, mainly attributable to other causes than the costs imposed by the embargo: for example, to the non-market inefficiencies of a centrally planned economy in the Cuban environment; to Cuba's insulation from the spur of competition in international markets resulting from the protective umbrella provided by Soviet barter; and to Cuba's large expenditures on military forces.

In the Rhodesian case, the costs actually imposed by sanctions were limited because South Africa, as well as Zambia, provided ample means to shift or evade these costs. Indeed, as Losman notes, to some extent the U.N. embargo may have actually had a growth-promoting effect on Rhodesian manufacturing analogous to that of protectionist commercial policies applied to infant industries in a developing country.

And in the case of Israel, the costs imposed by economic sanctions have been offset by access to capital from abroad, as well as by expanded trade with non-Arab markets.

My conclusion from this is straightforward: the political objectives sought by economic sanctions must be strictly limited if they are to have much chance of success, because the economic costs actually imposed by sanctions are also likely to be limited.

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Losman's final chapter discusses the nexus between economic costs--even assuming that sanctions succeed in imposing them--and political behavior. His discussion is valuable and sophisticated. He recognizes that backs may be stiffened even while, and perhaps because, belts are being tightened. Adroit political leadership, especially in centrally controlled or highly nationalistic political systems, can turn attempted international sanctions into a domestic rallying point against yielding to economic pressure. When psychological reactions, resentments, symbols and sympathies, have been aroused, the reliability of predictive models based on minimizing or avoiding economic costs is, at most, distinctly limited, especially in the short run. And we know about what may happen in the long run.

Of course, in this respect the limitations, as well as uncertainties, associated with economic sanctions are not fundamentally different from those that apply to other forms of attempted pressure--political, diplomatic, and even military--as well.