

Sanctions, Inflation, and Power: Why Economic Punishment Targets Citizens, Not States

Abdulqasem Bakhshi

Disclaimer: This essay focuses on Iran, a commodity-dependent state subject to sustained external sanctions, to illustrate how economic coercion disproportionately affects civilians while leaving the state apparatus intact. It reflects the author's interpretation of publicly available data, historical trends, and strategic reasoning. It does not constitute legal, financial, investment, or policy advice, nor does it endorse or advocate any specific political or military action. The views expressed are those of the author alone and do not represent any government, organization, or institution. Readers are encouraged to consult multiple sources, exercise independent judgment, and recognize that the analysis is probabilistic and interpretive rather than predictive.

Introduction

Economic sanctions are often presented as a peaceful alternative to war—a technocratic tool designed to pressure governments into policy change. In practice, however, sanctions function less as instruments of political reform and more as mechanisms of economic coercion that disproportionately harm ordinary citizens while leaving state power structures largely intact. To understand why sanctions repeatedly fail to achieve their stated objectives, one must examine how modern monetary systems operate, how inflation is transmitted through economies, and how global capitalism structurally protects states and elites while exposing populations to economic shock.

Sanctions and the Mechanics of Inflation

Sanctions primarily operate by restricting access to foreign exchange, trade finance, energy markets, and international payment systems. These restrictions do not directly reduce government power; instead, they collapse a country's real exchange rate, disrupt imports, and force the domestic economy into scarcity (see Figures 2, Appendix).

When a sanctioned country loses access to hard currency:

- Imports become expensive or unavailable
- Domestic currency depreciates
- Inflation accelerates, particularly in food, energy, and medicine

This inflation is not caused by “excess money printing” alone, as simplistic narratives often claim. Rather, it is the result of real constraints on supply, capital access, and trade settlement. In other words, sanctions convert external political pressure into internal inflation.

Crucially, governments are structurally better positioned to survive this inflation than citizens. States can:

- Collect taxes in depreciating currency
- Issue debt domestically
- Monetize deficits
- Redirect scarce resources toward security and regime preservation

Citizens, by contrast, are paid in local currency, consume imported goods, and lack access to financial instruments that hedge inflation or currency risk.

Money Creation, Inflation, and a Common Analytical Error

A recurring analytical mistake in discussions of sanctions and inflation is the assumption that all money creation is inflationary and that central banks directly transmit liquidity into the real economy. Modern fiat monetary systems do not operate this way. Understanding the distinction between different forms of money is essential to understanding why sanctions generate inflationary pressure in some contexts but not others.

In contemporary monetary systems, there are two fundamentally different forms of money:

1. **Inflationary money** — non-financial bank deposits that households and firms can spend, created through bank lending and fiscal deficits.
2. **Non-inflationary money** — bank reserves, or liquidity, created through central bank operations such as Quantitative Easing (QE).

Despite persistent textbook claims to the contrary, these two forms of money do not mechanically interact. Banks do not lend reserves to households or firms, nor do they “multiply” reserves when extending credit. Bank lending is driven by demand for productive investment and expected profitability, not by the quantity of reserves in the banking system.

Japan demonstrated this clearly in the early 2000s. Facing deflation, policymakers assumed that QE—large-scale creation of bank reserves—would stimulate lending and revive inflation. QE succeeded in creating reserves, but those reserves never left the banking system. Lending did not expand because firms lacked profitable investment opportunities and households lacked confidence. In the absence of credit demand and expected returns, inflationary money creation never occurred.

The critical implication is that reserves alone do not generate inflation. Inflationary pressure arises when spendable money increases relative to real goods and services—either through private credit expansion or fiscal deficits. Japan eventually recognized this constraint and shifted away from relying solely on QE toward aggressive fiscal policy to stimulate demand.

This distinction matters directly for sanctions analysis. Sanctions do not primarily operate through excess liquidity or reckless monetary expansion. They operate by destroying real economic capacity—restricting trade, foreign exchange access, supply chains, and productive investment. Inflation under sanctions emerges not because governments print too

much money, but because fewer goods, services, and capital flows are available relative to domestic demand.

At the same time, sanctioned governments often resort to fiscal deficits to preserve basic functionality and security. Unlike QE-driven reserve creation, fiscal spending directly creates inflationary money. When combined with external supply constraints imposed by sanctions, this produces rapid price increases that fall disproportionately on civilians.

Thus, sanctions weaponize a structural asymmetry: they suppress real economic capacity while forcing states toward inflationary fiscal responses. The result is not monetary excess in the abstract, but inflation born of scarcity, institutional stress, and constrained choice.

Why Governments Survive While Citizens Suffer

Modern capitalism is not neutral—it is hierarchical. Governments and connected elites have access to tools that ordinary citizens do not:

Foreign exchange derivatives (forwards, swaps, options)

- Offshore banking channels
- Commodity-linked revenues
- State monopolies and privileged contracts

Even under sanctions, governments can hedge oil revenues, reroute trade, and transact through intermediaries. Citizens cannot hedge food prices, rent, or wages. Inflation therefore becomes a regressive tax, transferring wealth from labor to capital and from society to the state.

This is not unique to sanctioned countries. The same structural logic operates in Europe and the United States during inflationary episodes: asset holders and institutions protect themselves; wage earners absorb the loss. Sanctions simply compress this dynamic into a more violent and rapid form.

Thus, sanctions do not weaken governments; they re-militarize economies, expand black markets, and strengthen coercive institutions at the expense of civil society.

Why Sanctions Are Used Despite Known Civilian Harm

Foreign governments are not ignorant of these effects. On the contrary, sanctions are deployed precisely because they generate civilian pressure. The expectation is that economic pain will produce political unrest, delegitimize the state, and eventually force regime change or policy compliance.

Yet this logic contains a contradiction:

If sanctions knowingly harm citizens, why should those same citizens trust the sanctioning power as a future partner or liberator? History repeatedly shows that they do not—and should not.

Regime Change and the Illusion of Rescue

Regime change, whether overt or covert, rarely produces sovereignty or prosperity. It produces institutional collapse, capital flight, brain drain, and long-term dependency. The collapse of the USSR offers a clear example. Sanctions, combined with institutional breakdown, produced hyperinflation, loss of state capacity, mass emigration, and the destruction of accumulated knowledge. The result was not freedom but oligarchy.

[Afghanistan is an even starker case.](#) After decades of intervention and promises of reconstruction, the country was abandoned, its reserves frozen, and its population pushed into a humanitarian crisis. Trusting external powers did not lead to stability; it led to abandonment once strategic interest faded. These outcomes are not anomalies. They are structural. Sanctions and regime change are tools of power politics, not humanitarian instruments.

Iran: Sanctions, Real Interest Rates, and Structural Vulnerability

Iran provides one of the clearest empirical cases of how sanctions operate through monetary channels (see Figures 1–2, Appendix). Each major sanctions episode corresponds with:

A spike in real interest rate differentials allowing:

- Currency collapse
- Capital flight
- Investment destruction

As an oil-dependent economy under constant external threat, Iran faces a structural trap. It must allocate resources to defense while being denied access to capital, technology, and trade needed for diversification and innovation. Sanctions intensify this trap, forcing short-term survival over long-term development.

The result is not merely economic damage but identity strain—a society forced into permanent crisis management rather than institutional evolution.

Sanctions, Continuity, and the Deeper Question of Power

As argued in [IRGC, Iranian Identity, and the Prospects of a Sassanian Revival](#), the economic effects of sanctions cannot be separated from Iran's longer historical struggle with institutional continuity. Inflation, currency collapse, and capital destruction are not merely macroeconomic outcomes; they interact directly with unresolved questions of legitimacy, succession, and state identity that have persisted since the fall of the Sassanian Empire in 651 CE.

Sanctions intensify this structural tension by weakening civilian society while reinforcing emergency governance and securitized institutions. Rather than facilitating political evolution, external economic pressure accelerates institutional inversion—where enforcement bodies outlast and eventually supersede the ideological authorities that created them. In the Iranian case, this dynamic raises a structural, not moral, question of power succession: when clerical authority erodes, which institution possesses the organizational capacity, legitimacy, and coherence to govern?

The linked essay examines this question in depth, situating contemporary Iranian institutions within a *longue durée* framework of state formation, collapse, and continuity. Its central argument is not prescriptive, but analytical: sustainable governance in Iran has historically depended on aligning power, identity, and institutions within a coherent national framework. Sanctions, by design, disrupt this alignment. They impose economic fragility without resolving underlying political structures, thereby prolonging instability rather than enabling transition. In this sense, sanctions are not merely tools of foreign policy; they are historical accelerants. Whether they lead to reform, consolidation, or fragmentation depends less on external intent than on internal institutional inheritance—a subject that requires analysis beyond the immediate economic horizon.

Dialogue Over Destruction

Sanctions undermine precisely the social forces capable of producing internal reform. They weaken the middle class, hollow out institutions, and radicalize politics. Dialogue, trade, and economic integration—however imperfect—preserve social capital and agency. Citizens of sanctioned countries should therefore be deeply skeptical of narratives that promise salvation through external pressure. When actions consistently harm civilians, rhetoric about freedom rings hollow. In the end, sanctions reveal a simple truth about the modern world: Politics is not about morality—it is about power. And power, when exercised through economic coercion, rarely liberates those it claims to help.

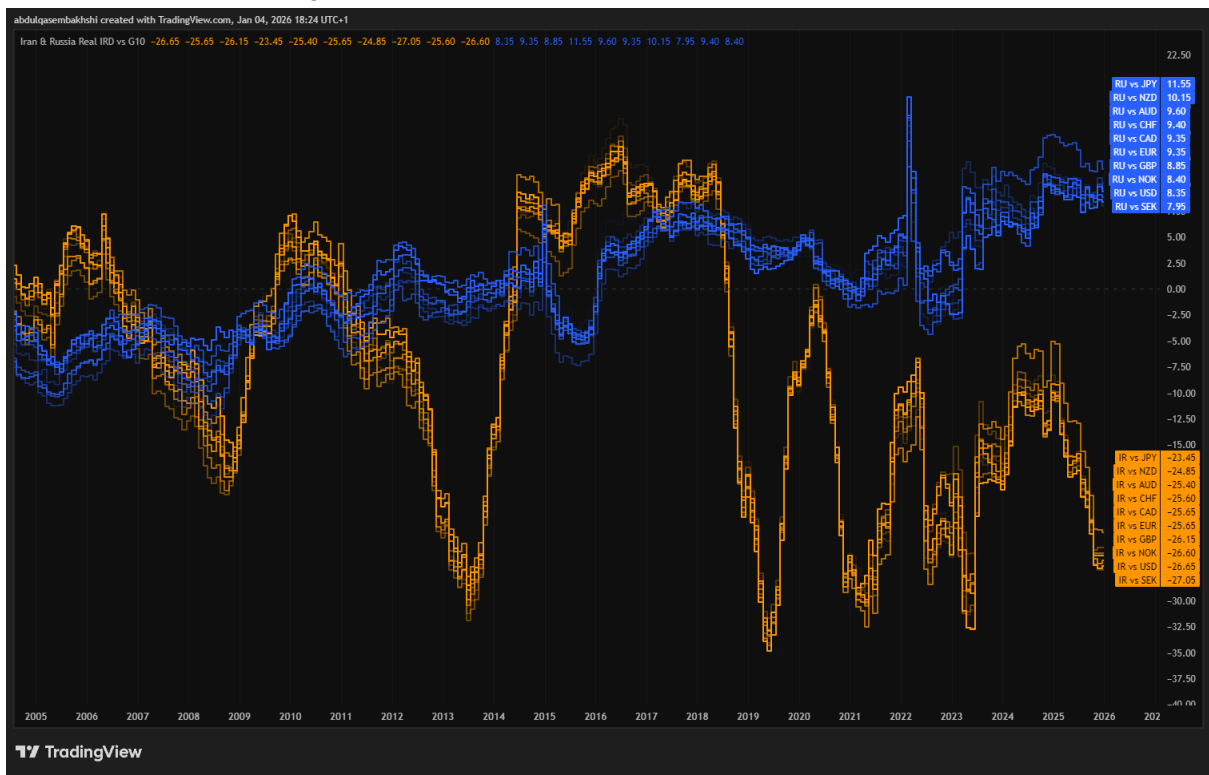
Conclusion: Sanctions as Power, Not Policy

Economic sanctions are often justified as targeted, reversible, and morally preferable to military force. Yet in practice, they operate as blunt instruments that transform geopolitical conflict into domestic economic collapse. Their primary transmission mechanism is not political reform but inflation, scarcity, and institutional stress—burdens borne overwhelmingly by civilians rather than by governing elites. By exploiting the asymmetries of modern capitalism, sanctions preserve state survival while eroding social resilience. Governments retain access to fiscal tools, coercive capacity, and financial hedges; citizens absorb currency depreciation, wage compression, and declining living standards. Far from weakening regimes, sanctions frequently entrench them by legitimizing emergency governance, securitization, and ideological rigidity.

The historical record is unambiguous. From the Soviet collapse to Afghanistan's abandonment, sanctions and regime change have repeatedly destroyed institutional capacity without delivering sovereignty, prosperity, or stability. These outcomes are not failures of execution but consequences of design. Sanctions are instruments of power politics, calibrated to impose cost rather than cultivate continuity. Iran illustrates this dynamic with particular clarity. Sanctions amplify existing structural vulnerabilities—oil dependence, external threat perception, and capital constraints—forcing the state into survival mode while delaying institutional evolution. The resulting inflation and identity strain do not resolve political questions; they postpone them, often in more dangerous forms. Ultimately, sanctions do not answer the question of governance—they defer it. They do not determine who rules; they reshape the conditions under which power is inherited. Whether a society emerges more resilient or more fragmented depends not on external pressure, but on internal institutional succession and historical continuity. In this sense, sanctions are not a substitute for politics. They are an admission of its limits.

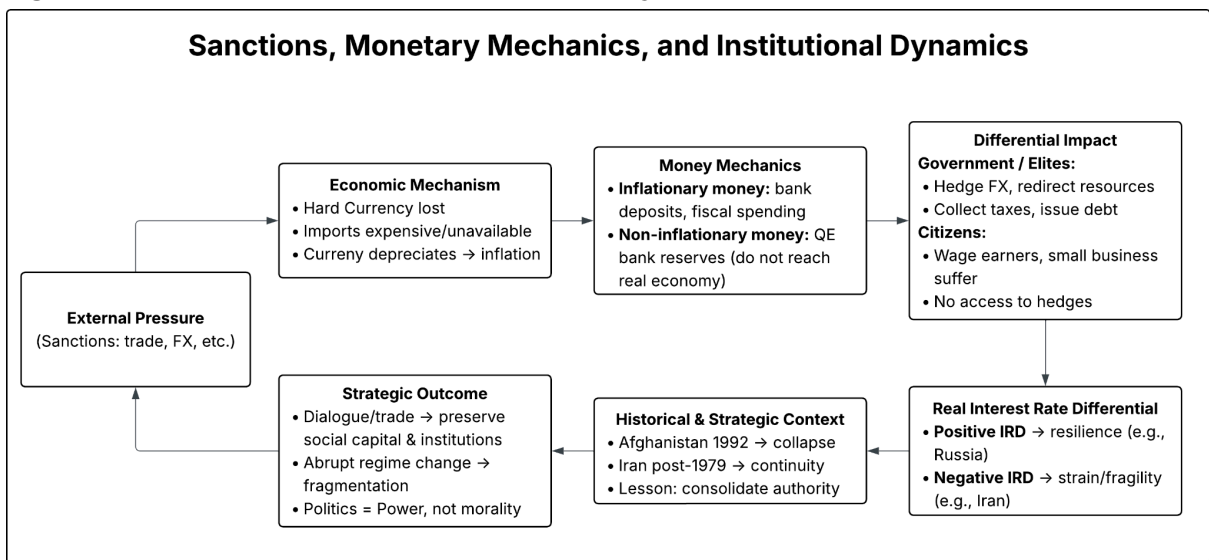
Appendix: Figures

Figure 1: Real Interest Rate Differentials of Selected States: Indicators of Economic Pressure and Monetary Conditions.



The IRD highlights divergent economic resilience: Russia maintains a positive differential that shows economic resilience, while Iran's negative differentials indicate economic strain, institutional stress, and heightened risk of fragmentation.

Figure 2: The Impact of Sanctions on Economy and State Power



This flowchart illustrates how sanctions transmit economic pressure through inflationary channels, affecting citizens disproportionately while reinforcing state and elite power, and shaping long-term institutional outcomes.