September 5, 2024 / How sanctions backfire

[HALF SECOND OF SILENCE]

[BILLBOARD]

JEFF STEIN (*Washington Post* reporter): If you don't mind, I kind of want to just read the number of, of, countries that we have important sanctions on.

SCORING <Dave the Mage - Julmust (Instrumental)>

JEFF: We currently have major sanctions on Iran, North Korea, Venezuela, Syria, Cuba, Yemen, Afghanistan, Russia, China, Myanmar, Libya, Sudan, Belarus, Lebanon, Mali, Ethiopia, Zimbabwe, Nicaragua, Somalia, the Democratic Republic of Congo and that is a partial list.

SCORING OUT

NOEL KING (host): And it’s better than going to war. That’s the case for sanctions! The problem is - people pay attention to wars. They don’t really pay attention to sanctions.

SCORING BACK IN

JEFF: The United States is currently engaged in a massive economic war across dozens of countries that we are unaware of, the collateral damage of which is far greater than most people even in the US government are aware of.

NOEL: In a few months, a Harris or a Trump administration will have the chance to reverse a mountain of American sanctions. And coming up on *Today, Explained*: we’re gonna have an argument that whoever is elected maybe SHOULD.

SCORING OUT

[THEME]

NOEL: It’s *Today, Explained*. *Washington Post* White House economics reporter Jeff Stein recently co-wrote “The Money War”, a big package of stories - thousands of words - about sanctions. Why did Jeff do such a thing?

JEFF: My reporting around this started because as part of my beat, I covered the Treasury Department. And as a reporter on the Treasury team, I get their emails and their newsletters. And what they send out is every entity that they've sanctioned, and it ends up in my inbox. And I was looking at my inbox and it felt like almost every day I was getting another sanctions designation sent to me by the Treasury Department. And that led me down this rabbit hole of, ‘Wait, how many countries, how many people, how many governments are now subject to these U.S economic penalties? And what does that mean, um, for both U.S. foreign policy, but also how we shape and influence and affect the rest of the world?’

NOEL: What is a sanction, Jeff?

JEFF: It's a little complicated, and I can get more technical than you surely want, but…

NOEL: <chuckles>

JEFF: … essentially a sanction is being told that you are persona non grata, that you are blacklisted from dealing with anyone else.

SCORING <Machine Work>

*<CLIP> AL JAZEERA: The United States has placed sanctions on a religious school in Northwest Pakistan…*

*<CLIP> FORMER PRESIDENT DONALD TRUMP: Saudi Arabia also joined us this week in placing sanctions on one of the most senior leaders of Hezbollah.*

*<CLIP> STATE DEPT OFFICIAL: …UN sanctions, US sanctions, and EU sanctions as well.*

JEFF: Being sanctioned actually isn't the same thing as being charged with a crime, but it is being put on a list that says that if anyone wants to do business with you, they will be committing a crime if they try to do that. So it's kind of like a time out from being part of the global economic system. You're put in a space that nobody else can deal with you.

*<CLIP> BBC: The latest sanctions are against companies and individuals accused of breaking US sanctions against North Korea, by shipping in banned items.*

JEFF: The rise of sanctions is really about trying to figure out how we can get people who we don't like to do what we want them to do without having to spend money, send troops overseas, or just ask nicely.

NOEL: Mm.

JEFF: If those options seem unpalatable or have failed, sanctions exist in this middle ground where we can simultaneously try to sort of cajole people around the world to do what we want them to do in a way that might be more effective than asking politely, but less costly than going to war with them.

SCORING OUT

NOEL: We've covered the history of sanctions on *Today, Explained*. But as I remember, there are iterations. This evolves over time. Where does the latest or most recent iteration of sanctions originate? Where does it start?

JEFF: Yeah, historians can debate sort of like the right cut off here. But to me, I think it's really worth taking a step back and looking at how, in the aftermath of the disasters of Iraq and Afghanistan, there was a massive political backlash to presidents sending American troops to die overseas in these bloody, ostentatiously-deadly wars that cost trillions of dollars. And after Iraq and Afghanistan, you saw real commitments from both parties to at least less obviously be involved in, um, bloodshed abroad. And so you saw a move away from launching new invasions.

SCORING <Inspiration Whispers>

*<CLIP> SEN. BERNIE SANDERS (I-VT): Mr. President, this war in Iraq has come at a very very high price in so many ways.*

JEFF: After 9/11, the US national security establishment had a really concerted push to figure out exactly how it was that Al-Qaeda had moved basically close to half $1 million through Western bank accounts to facilitate the 9/11 attacks.

NOEL: Huh.

JEFF: And that led to the Patriot Act, which people are familiar with because of its impact on sort of domestic surveillance and civil liberties concerns. But part of that law enabled US officials to look much more closely at financial flows all over the world.

*<CLIP> FORMER PRESIDENT GEORGE W BUSH: The bill before me takes account of the new realities and dangers posed by modern terrorists. For example, this legislation gives law enforcement officials better tools to put an end to financial counterfeiting, smuggling, and money… money-laundering…*

JEFF: This was also in part because the rise of sort of digital banking worldwide meant that this data was being created at a volume that it never had before. And suddenly, because of these changes, the US government now had this, like, massive telescope that it could point at all these different banks all over the world and look inside their vaults and see what was moving where. And that was a huge change that allowed the US government to start saying, ‘Hey, we don't have to close down business with an entire country. We can hit the regime leaders in these countries.’ And that was part of the, the justification for what became known as smart sanctions: really, these targeted economic measures that were meant to be more limited in scope. But in part because they were, in theory, more limited, they've allowed the volume of them to really explode because each one, at least in theory, seems less impactful.

SCORING OUT

NOEL: And if I were to broadly say, the big difference between a smart sanction and the old dumb sanctions is – what?

JEFF: Yeah, the best example of a dumb sanction would probably be what we did in Iraq.

*<CLIP> FORMER PRESIDENT GEORGE HW BUSH: Tonight, I am pleased to report that we are on course: Iraq’s capacity to sustain war is being destroyed…*

JEFF: Economic blockades against Iraq under Saddam Hussein led to tremendous civilian casualties, um, the inability to rebuild that country's electrical system and horrific diseases that, that followed as a result.

*<CLIP> IRAQI: <translation> Iraq is the richest country in the world but has not been able to use its resources. Governments come and go, but the citizens are paying the price.*

JEFF: You know, during the Cold War, there was kind of a limit, an upper limit, to how impactful US economic blockades could be, because in a sort of multipolar world where the Soviet Union was a counterweight to U.S. power, countries that – like Cuba – were cut off from the Western financial system, could turn to that dominated by the Soviets. But after the fall of the Soviet Union and in the 90s, the rise of American hegemony, both militarily but also financially, which is so crucial to this story… Economic blockades meant a total strangulation of a country's economy, which is what we saw in Iraq. There was no Soviet Union, really, for Iraq to try to turn to. And what that meant was that these dumb sanctions, a lot of experts would say, led to an untold number of children, for instance, being killed.

*<CLIP> IRAQI: <translation> What crime have we committed to deserve all this? Are we going to make a bomb out of this medicine? We just need the medicine.*

NOEL: Yeah, I remember that being a very big story when we were younger, just the idea that kids in Iraqi hospitals didn't have medicine. They were dying of easily preventable things. And so the United States says, ‘We don't have to do this in a dumb way. We can do this in a smart way. We can avoid some of the… what we would call collateral damage, right? We can avoid some of the real tragedy.’ Where and when does the U.S. first put the idea of smart sanctions to the test?

*<CLIP> GW BUSH: Earlier this week, the government of North Korea proclaimed to the world that it had conducted a successful nuke-ular test.*

JEFF: In around 2003, the North Koreans suddenly withdrew from a ballistic missile treaty that sort of alarmed the world.

*<CLIP> GW BUSH: We all agree that there must be a strong security council resolution that will require North Korea to abide by its international commitments to dismantle its nuke-ular programs.*

JEFF: And rather than try to cripple the entire North Korean economy, officials at the Treasury Department realized that there was a bank in Macau that was processing a huge percentage of North Koreans’ financial transactions. And what the US did was to say, ‘We will impose sanctions on anyone that deals with this bank, this Macao financial institution.’ And that seems to have worked. It was a way of saying that, ‘We will not restrict the flow of goods in and out of North Korea, or medicine, or food, but we'll sort of narrowly target a key economic chokepoint.’

NOEL: Hmm.

JEFF: And for a lot of people at Treasury, that – this was sort of a big success story. They were really kind of proud of this moment, because it led the North Koreans to backing down and sort of furthered the thinking that sort of all of this new financial data that Treasury was suddenly able to have access to after 911 could be used to be more surgical about how to achieve U.S. foreign policy ends around the world.

NOEL: And how did it go?

JEFF: You saw with each passing year, presidents increasingly be interested in this tool, because it allows them to suggest that they're being tough without actually doing anything that they would see as too risky to their domestic political fortunes. And so by the time the Obama administration rolls around, you have huge new sanctions on Iran. Um, you have sanctions spreading to, um, Syria after the horrible civil war there. You have sanctions on the Democratic Republic of the Congo. And then year after year, they – they just pile up. To the point at which I reported in the story, there's a Christmas party, um, and the director of the office responsible for sanctions…

SCORING SNEAKS IN <”Every Little Thing She Does is Magic” Instrumental>

JEFF: …sang a song to the tune of The Police's “Every Little Thing She Does is Magic,” with the, um, title “Every Little Thing We Do is Sanctions.” The song recounted the different sanctions programs that the Obama administration was pursuing.

NOEL: Is that… on tape anywhere?

BREAK ––

JEFF: I've been asking and nobody has either shared with me or wanted to share with me.

SCORING BACK

LYRICS <“Every Little Thing She Does is Magic”>  
 *Every little thing she does is [TEX PRODUCER MILES BRYAN: Sanctions.]  
 Everything she do just turns me on  
 Even though my life before was tragic  
 Now I know my love for her goes on…*

NOEL: When we’re back, Jeff’s going to tell us what American sanctions can mean for Americans. A hint: have you been wondering about Venezuelan migrants lately? Stay tuned.

[BREAK]

[BUMPER]

NOEL: It’s *Today, Explained*. We’re back with *The Washington Post*’s White House economics reporter Jeff Stein. When we left off, at a Christmas Party during the Obama administration, the number of US-imposed sanctions had ballooned. And then:

JEFF: So by the end of Obama's administration, there was already – and remember, this is about ten years ago – there was already a growing recognition that this had already gotten out of control. The Treasury secretary at the time was a guy named Jacob Lew, who's most famous for his indecipherable, um, squiggly signature.

NOEL: <laughing> Oh, yeah.

JEFF: And what Lew, in a more serious note, was, was pointing out was that the whole edifice of sanctions that had grown up under Bush and Obama – already by this point, Lew was seeing that in its rise, it contained sort of the seeds of its own demise and, and failure. Which was that if sanctions were predicated on pushing people out of the Western financial system, if you did that enough times, what it would mean would be that there would be enough people outside the financial system that they could form their own alternative links that could compete…

NOEL: <gasps>

JEFF: …and sort of exist independent of U.S.-Western financial institutions, which would render the whole idea of sanctions effectively inert. And so on his way out of office, ahead of the Trump inauguration, Jack Lew gives a speech in which he says, ‘Hey, we gotta be really careful and strategic about not letting the use of this tool get out of control.’

*<CLIP> FORMER TREASURY SECRETARY JACK LEW: Today’s economic tools are sophisticated and potent, but they are not the answer to every threat we face. [To] preserve the effectiveness of sanctions over the long term, we MUST use them wisely.*

NOEL: I used to teach elementary school, and if you put one kid on a timeout, it's fine. Two kids on the timeout, it's fine. You have ten kids on the timeout, they are timing out with each other. And so I see what you're saying. It's like we've now kicked so many people out of the Western financial system that they're like, ‘Okay guys, we'll just do our own thing.’

JEFF: Especially if it's like the worst-behaved kids in the class, right?

NOEL: Right, right.

JEFF: Like they're more likely to get up to mischief, right, if you put them all together.

NOEL: And to feel some cohesion amongst each other. ‘The United States, the teacher, picks on all of us, we’ll do – we'll do our own thing. And now there's ten of us or 12 of us.’ Where do we best see the impact of, of excess sanctions? Where do we most vividly see this play out?

JEFF: So by the time the Trump administration comes in, the sort of “light on sanctions” approach has been completely blown off. One of the most controversial examples of sanctions being implemented under President Trump was the case of Venezuela.

SCORING <The Devil in the Details>

JEFF: You had some targeted, limited, smart sanctions imposed by the Obama administration on members of the regime of Nicolas Maduro, who was accused credibly of jailing dissidents and, um, torturing political opponents. But by the time Trump rolls around, pressure has grown to do something about Maduro’s illegal handling of elections in Venezuela. And the Trump response is to do what was then and now called a “maximum pressure campaign.”

*<CLIP> FORMER UN AMBASSADOR JOHN BOLTON: We’re going to announce sanctions against Petroleos de Venezuela Sociedad Anima, or PDVSA, as it’s known by its Spanish acronym, the state-owned oil monopoly. We have continued to expose the corruption of Maduro and his cronies and today’s action ensures they can no longer loot the assets of the Venezuelan people.*

JEFF: It's breathtaking to me, as I did this story, how few Americans are really aware of the scale of the suffering of Venezuela and the role that the U.S. had in that suffering.

*<CLIP> BBC, REPORTER: Rotten beef is also sold here in this market. It smells strong. It’s got flies all over it.   
MAN ON THE STREET: <translation> The situation is so critical here that people are buying anything. They can’t afford a kilo of beef, pork, or chicken.*

JEFF: In Venezuela, that country endured the single worst decline of any economy not at war in the modern era. Even more than many countries at war. So the Venezuelan economy contracted by more than Iraq's economy contracted after the 2003 invasion. It contracted by more than the Ukrainian economy contracted after the 2022 invasion by Russia. This is a 71% economic collapse, and it might not grab as much attention as, you know, [the] U.S. Army going into Fallujah. But we are looking at massive increases in malnutrition and poverty and hunger, and all of those things were exacerbated, many critics will say, by US financial penalties that Trump imposed to really choke off Venezuela from world markets.

SCORING OUT

NOEL: And so when Americans hear about Venezuelan migrants coming to the United States and kind of want to understand the context, there's obviously a lot of different things going on. But are American sanctions on Venezuela's government – going back before Donald Trump, – are they part of the reason we're seeing folks come here?

JEFF: Yeah, we had a story about this. Sources describe to us that in the period of 2017-2019, during the Trump administration's massive increase of U.S. sanctions, the Department of Homeland Security had a division that was producing classified internal assessments warning the Trump White House that their sanctions policies could exacerbate out-migration out of Venezuela.

NOEL: Mm.

JEFF: And I'll be careful here, because I think it's quite clear that the Venezuelan economy had lots of problems, not all of which at all were caused by the US, some of which were entirely caused by decisions made by the Maduro regime. But that said, when we look at the devastation in Venezuela, it's hard to, to see how the U.S. is not at least partially culpable.

NOEL: This is really fascinating. We understand that there's criticism from in… from inside of various administrations saying, ‘Guys, we may in fact be doing too much, too much, too much.’ And then Joe Biden is elected president. And what does he do?

JEFF: So as we reported in the story, when in 2021, a group of Treasury staffers, we were told, wrote an internal report that stretched over 40 pages long and was really devoted to this question of, ‘How do we reform sanctions so we don't just, like, throw them like peanuts to the birds and just have more and more and more every, every year?’ And what happens with that report is sort of the story of the rise of sanctions in a nutshell, because people start saying like, ‘Well, not really comfortable with the scale of the drawdown that you're suggesting. What if we want to use them for this or that?’ And so that ambition, that report gets essentially shelved. It gets massively pared back to sort of only the more toothless recommendations. And in October ‘21, it's published. And then only a few months later – a few months after this report is published – Russia invades Ukraine. And any thought of sort of paring back or moderating the rise of sanctions is essentially thrown out the window in favor of using every tool available to respond to this crisis.

*<CLIP> PRESIDENT JOE BIDEN: Who in the lord’s name does Putin think gives him the right to declare new so-called “countries” on territory that belonged to his neighbors? This is a flagrant violation of international law, and demands a firm response from the international community.*

NOEL: 2024 is an election year. We have two potential administrations: a Trump administration, a Harris administration. How possible is it that this really could change?

JEFF: I think, unfortunately, it seems unlikely to me that either candidate would do much to change. We've seen Democrats under Biden take an increasingly hard line against China, and many people say that that's necessary given the state of the Chinese regime. But it's really hard for me, for domestic political reasons, to see Harris sort of pulling back on the attempts to push China out of Africa, out of Latin America, and out of Europe. And so as the sort of economic battle between China and the US intensifies, I think it's likely that a Democratic administration would continue to apply more and more sanctions.

NOEL: Huh!

JEFF: One other important fact, maybe, to keep in mind about Kamala Harris is that one of her new top policy advisers is a guy named Brian Nelson, who was until recently in charge of the Treasury office, um, that was pushing out many of these sanctions. And Trump – I mean, Trump said something the other day that he “doesn't like sanctions.” It was kind of a tossed-out thing he said to Bloomberg in an interview. I have no idea what he is talking about because as president, he just massively increased this tool. And they honestly fit with Trump sort of wheeling and dealing, ‘I'm going to maximally leverage my sort of zero sum mentality to punish other countries in the easiest way possible.’

*<CLIP> PBS: I’m gonna show you a tweet that the president sent out today. The tweet is: sanctions are coming. This is an obvious reference to “winter is coming” from the HBO show “Game of Thrones.” Is it cavalier to use a meme? <fade>*

JEFF: I think for people who are hoping that this policy abates, there's not a lot of reason for optimism.

NOEL: Everything you've laid out feels a bit hopeless. It feels like a bit of a runaway train, even as there are train engineers saying, guys, we gotta slow this down. Where do you think this ends?

JEFF: You know one thing I've been talking to, some experts about – mostly sort of off the record for now, because a lot of them aren't really ready to go public with this – but there's, I think, a truly scary possibility that everything that we've talked about is, in some ways, just, small little preview of the economic war to come with the second biggest economy in the world, which is China's. We are maybe looking at a period of economic sanctions, of economic warfare with China, which would make all of this stuff we've been talking about maybe look quaint. And instead of, you know, countries with GDPs in the hundreds of billions, we're talking about potentially, you know, half or, these trillions and trillions of dollars of the world economy now being this battleground for control of, of the world.

SCORING <Galactic>

JEFF: And while China has certainly been credibly accused of many human rights abuses and undermining, US manufacturing and trade and, and a litany of, of, of problems that US policymakers have identified, the prospect that we are looking at a full-blown economic war with China and what that would mean for sort of countries caught in the middle all over the world is, I think, a really humbling thought and one that sort of emphasizes the importance of getting these tools right.

NOEL: Jeff Stein of *The Washington Post*. He wrote “The Money War”.

Today’s episode was produced by Amanda Lewellyn and edited by Amina Al-Sadi. It was fact-checked by Laura Bullard and engineered by Andrea Kristinsdottir.

I’m Noel King. It’s *Today, Explained*.

[10 SECONDS OF SILENCE]