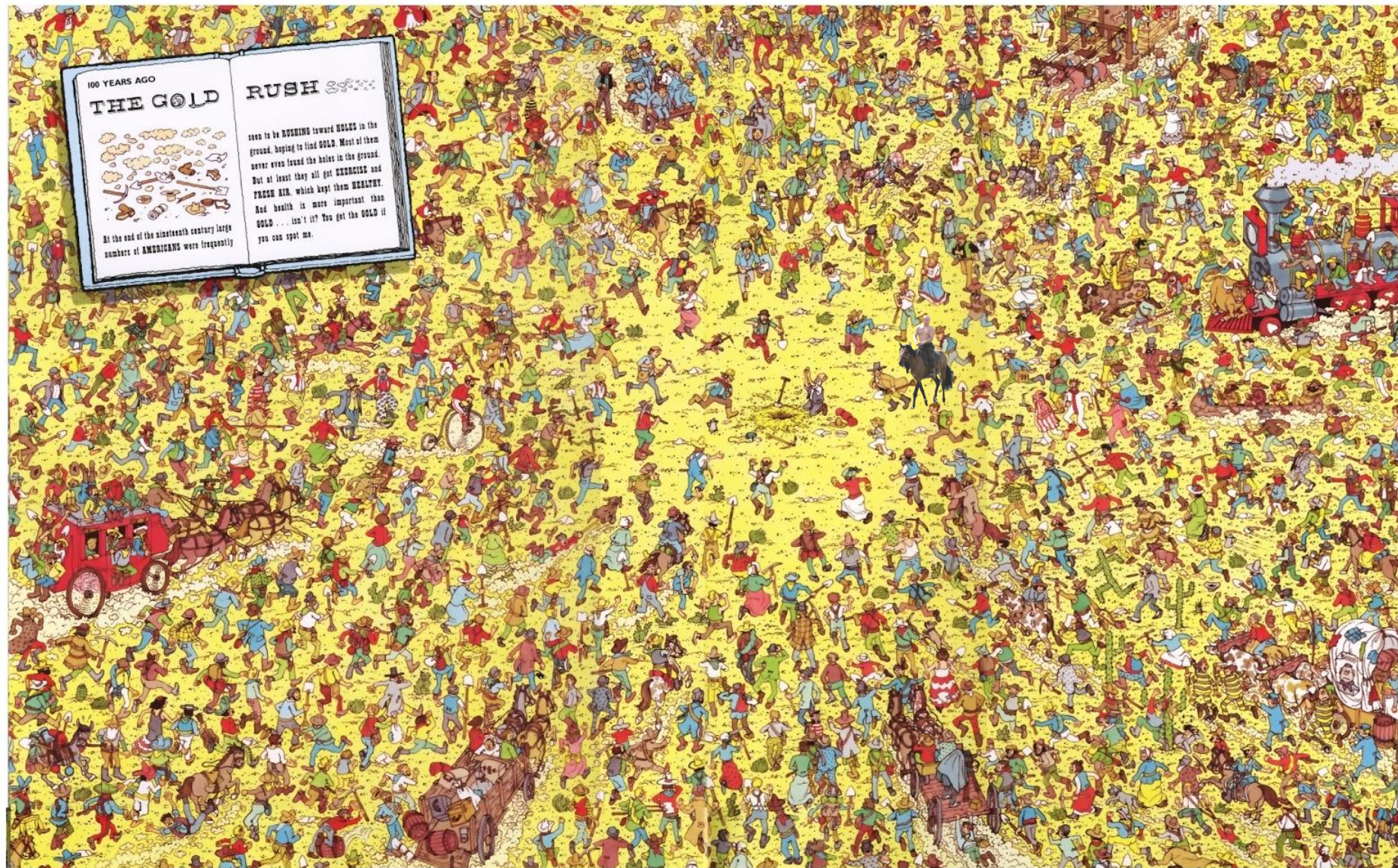


PSC/IR 106: Economic Sanctions

William Spaniel

williamspaniel.com/pscir-106-2015



100 YEARS AGO

THE GOLD RUSH



At the end of the nineteenth century large numbers of AMERICANS were frequently

RUSH

seen to be RUNNING toward GOLD in the ground, hoping to find GOLD. Most of them never even found the holes in the ground. But at least they all got EXERCISE and FRESH AIR, which kept them HEALTHY. Had health is more important than GOLD ... isn't it? You get the GOLD if you can spot me.

Outline

- What do sanctions do?
- Learning from observation/selection problem
- Data on sanctions
- Costly signaling
- Removing leaders from power

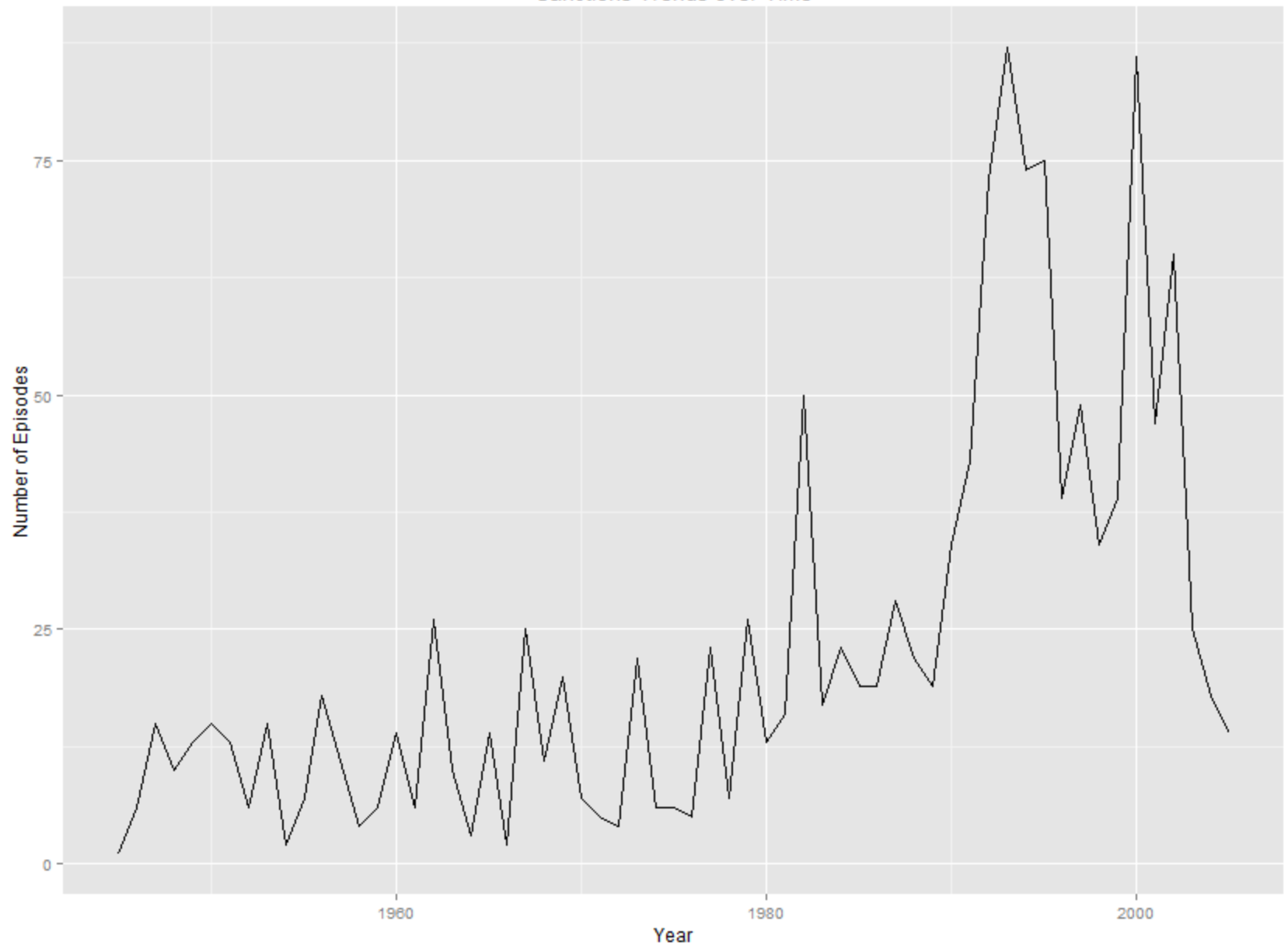
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Sanctions Basics

- Sanctions restrict trade in some way
 - Broadly (Cuba)
 - Narrowly (Russia)
- Aimed to win some policy concession, often completely unrelated to the sanctions
- More effective with more sanctioners
 - But harder to keep everyone together
- Have become more popular over time

Sanctions Trends over Time



Sanctions Basics

- Shrink budget constraint
- They are inefficient
 - Trade is efficient
 - If they weren't, we'd always impose them
 - So why sanction and not resolve the problem through efficient bargaining?
- Are difficult to appreciate observationally

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Data Problems

- IR data do not come from randomized experiments
- We (usually) only have observational data
- Makes it way to easy to reach unjustifiable conclusions

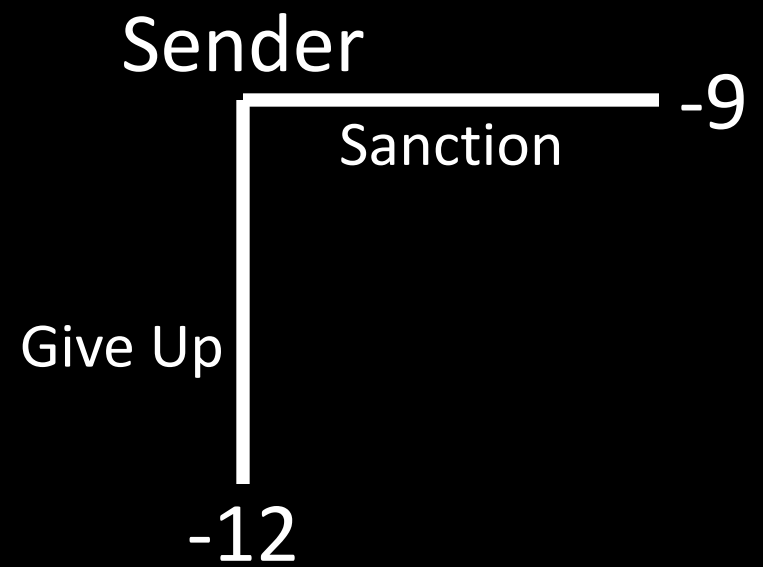
Lies My Cable News Channel Told Me

- Economic sanctions never, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, work
 - North Korea
 - Iraq
 - Cuba

Awful Research Methodology

- *Selecting on the dependent variable*
 - Inferring the effect of x by looking exclusively at instances of x
- Proper comparison: x versus not x

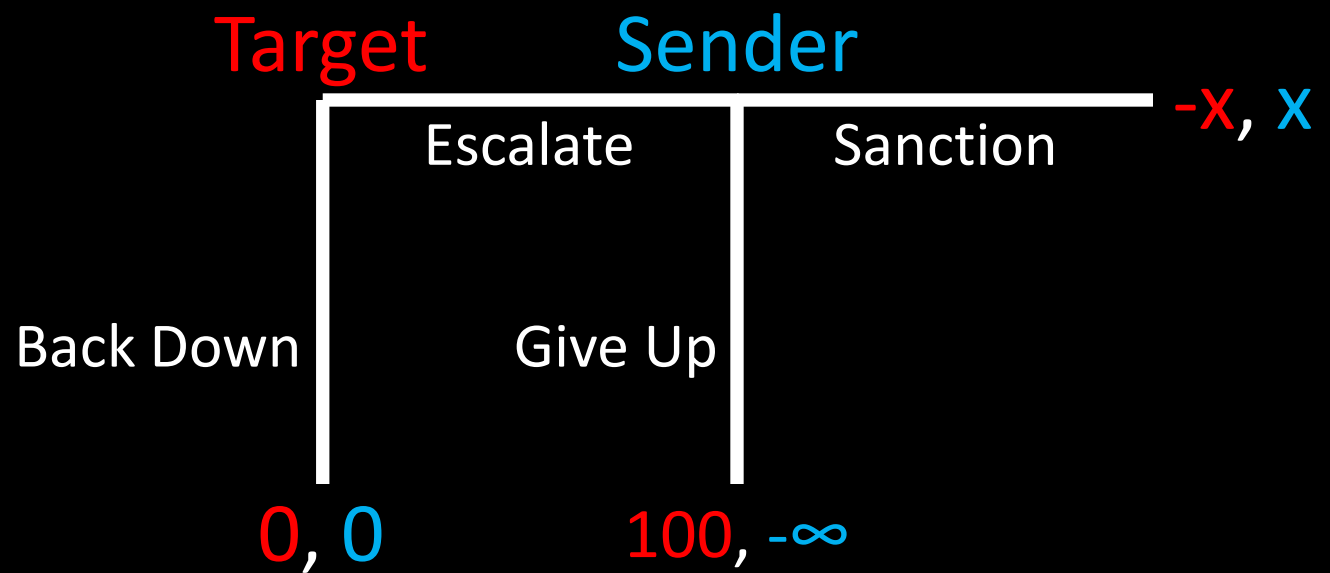
Would you study the effectiveness of
water by looking at death rates
among everyone in a hospital who
drank water?



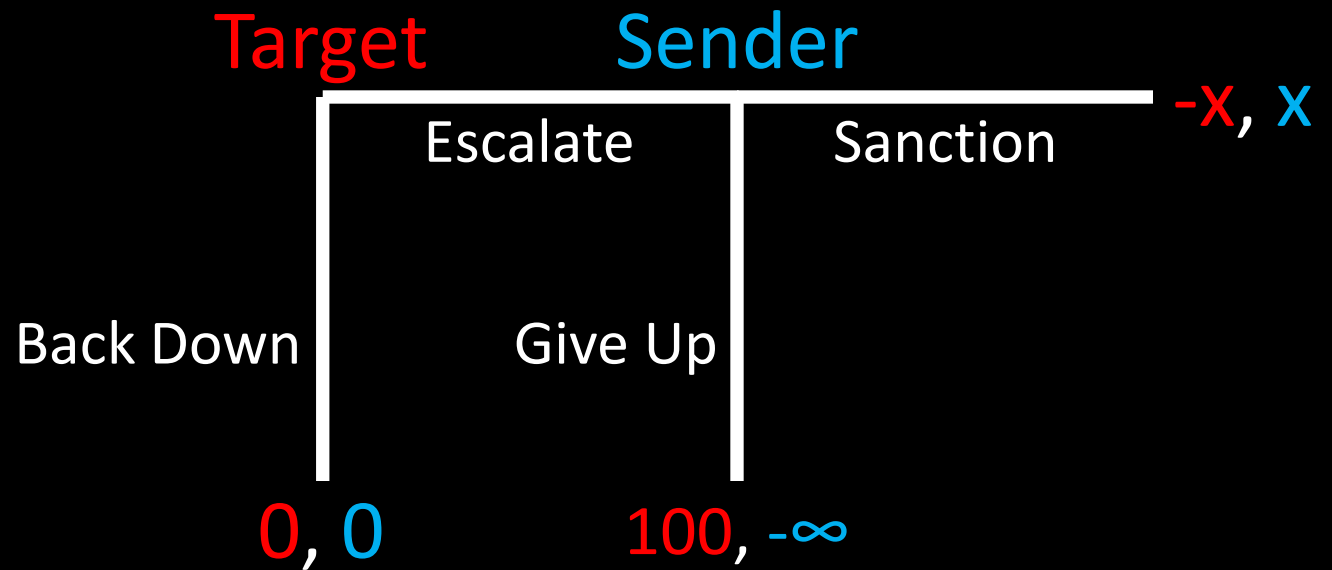
Target Acquiesces	Sender Capitulates	Stalemate	Negotiated Settlement
33.1%	30.1%	12.8%	24.0%

Lies (By Omission) My Cable News Channel Told Me

- The sanctions crisis that never occurred

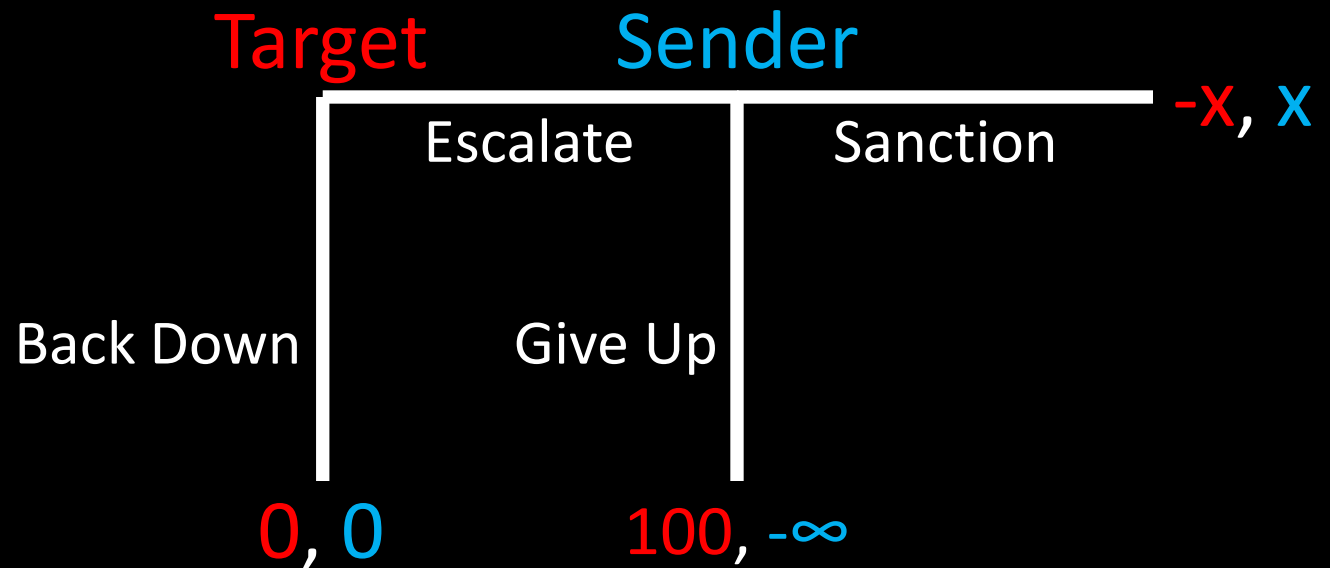


$x < 0 \Rightarrow$ Escalate, Sanction



$x < 0 \Rightarrow$ Escalate, Sanction

$x > 0 \Rightarrow$ Back Down, Sanction



It's Super Effective

- How does target respond to super effective sanctions?
- Are the sanctions that we observe the strongest sanctions in theory?

It's super
effective!

Selection Problem

- When strategic actions determine whether outcomes appear in a dataset
 - Target's strategic decision whether to back down determines whether we observe sanctions
- Biases estimates on causal relationships

Escalation Game

Sender	Target	Sender
	Threaten	Escalate
Quit	Back Down	Give Up
		Sanction

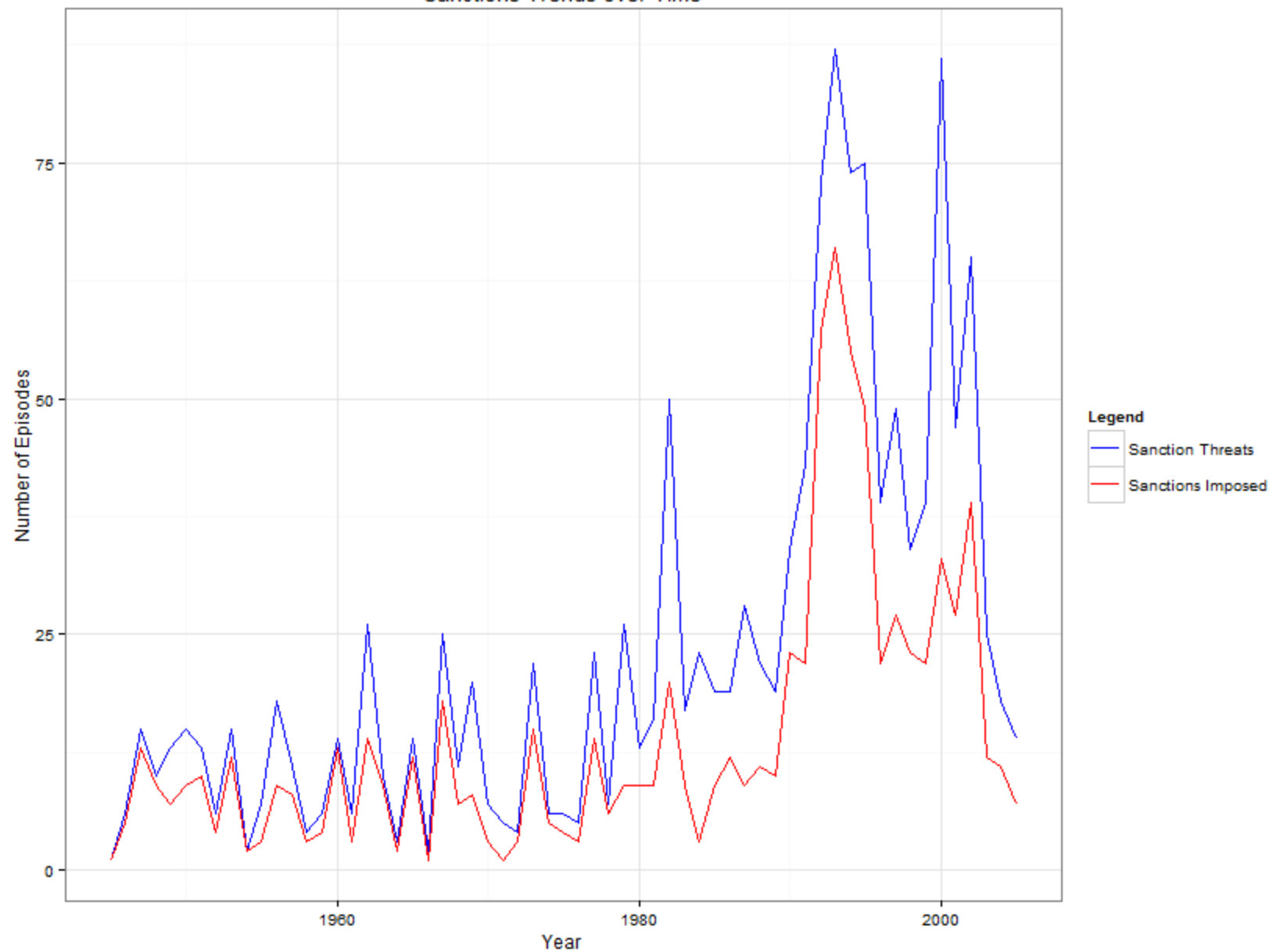
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TIES

- Threat and Imposition of Economic Sanctions database
- Created to address the selection problem
 - **Threat** and imposition
- Covers 1412 cases from 1945-2005

Sanctions Trends over Time



	Target Acquiesces	Sender Capitulates	Stalemate	Negotiated Settlement	Totals
During Threat Stage	19.7%	18.4%	2.2%	5.9%	46.2%
During Sanctions Stage	17.8%	16.2%	6.9%	12.9%	53.8%
Totals	37.5%	34.6%	9.2%	18.8%	100.0%

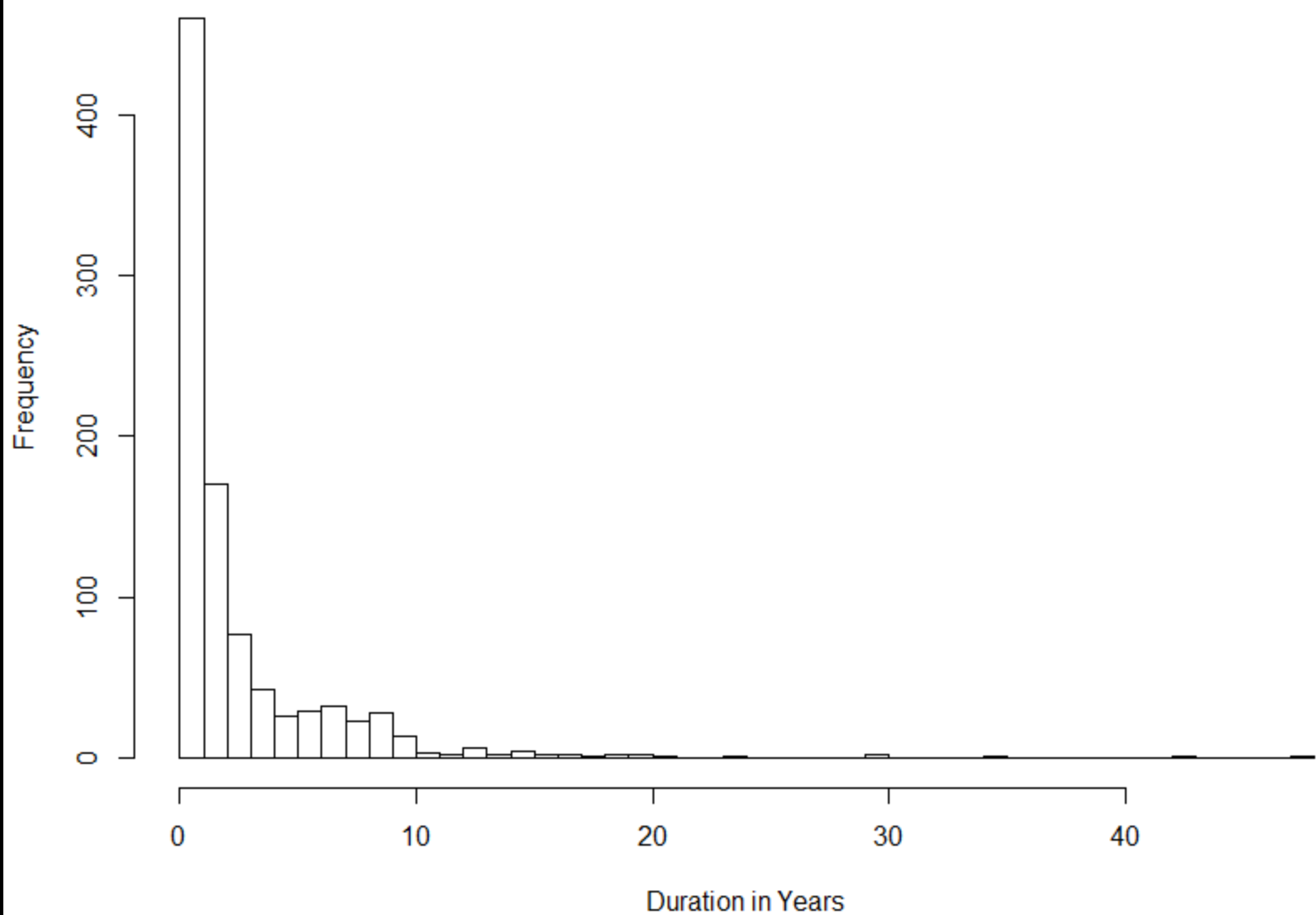
Takeaway

- Sanctions sometimes work
 - They sometimes don't
 - But no foreign policy tool that is actually implemented is completely effective
 - Certainly cheaper than other (not perfectly effective) alternatives

Lies My Cable News Channel Told Me

- Economic sanctions never, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, ever, end
 - North Korea
 - Iraq
 - Cuba

Distribution of Sanctions Duration



Takeaway

- Do not generalize from the salient cases
 - North Korea, Cuba, and Iraq are in American consciousness precisely because they are so abnormal
 - Same reason we shouldn't base all our foreign policy strategy on World War I or World War II

Lies (By Omission) My Cable News Channel Told Me

- Sanctions are only about military matters

	Portion of All Episodes	Sanctions Imposed	Target Wins	Sender Wins	Negotiated Settlement
Security	27.3%	63.9%	48.5%	39.7%	11.8%
Human Rights	5.9%	54.8%	52.9%	37.1%	10.0%
Economics	55.0%	60.1%	38.6%	32.5%	28.9%
Environment	3.3%	53.2%	11.6%	55.8%	32.6%
Other	8.5%	51.7%	57.8%	42.2%	0.0%

Takeaway

- Sanctions usually aren't about security issues
 - Economic disagreements account for a majority of sanctions episodes
 - We never hear about them because trade issues involving thimble production isn't sexy enough to make it on the evening news
- 
- Tonight, thimble crisis in India, as politicians in New Delhi threaten to shut down garment production. For more, we go to NBC News anchor Andrea Mitchell.



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Incentives to Misrepresent

- Weak actors want to pretend they are strong
- If easy to do, impossible to communicate actual preferences
 - Talk is cheap
- Leads to inefficient behavior
 - Good outcomes for weaker types
 - Bad outcomes for stronger types
 - Bad outcomes for opponents

Costly Signals

- Not all means of communication are easy





Costly Signals

- Not all means of communication are easy
- A *costly signal* is a signal that some types can't or are unwilling to pay
 - Credibly reveals types
 - Allows opponent to properly calibrate its decision
 - Only useful when there is incomplete information

Sanctions as Signals

- Uncertainty about sender's resolve?
- Sanctions are costly for sender
- Reveals that sender cares about the issue
 - An actor that does not care about the issue would not be willing to pay the cost
 - Allows opponent to update its belief about opponent's resolve
- Sanctions are inefficient but *less* inefficient

Outline

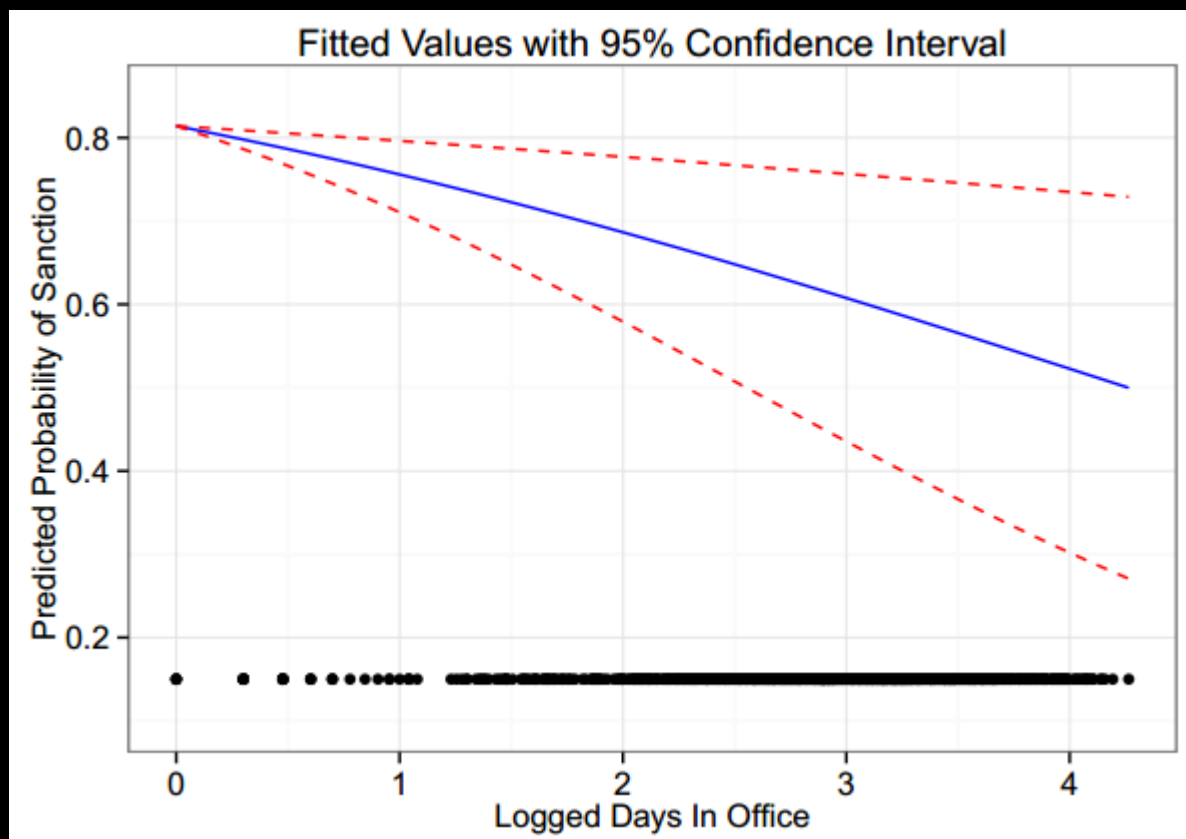
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More Uncertainty

- Uncertainty goes both ways
 - Sender's resolve?
 - Target's ability to weather sanctions?

Targeting Leaders

- Sanctions often target leader's winning coalition
 - Switch loyalties, topple from power
 - Assassinate?
 - Pressure leader to give up before those outcomes
- When do we know more about a leader's winning coalition and vulnerabilities?



Targeting Leaders

- Is it easier to identify winning coalitions and vulnerabilities in democracies or autocracies?

Predicted Probabilities, Interaction Model

