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"What role should sanctions play in foreign policy?"

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Episode Summary:

Since 2022, Western nations have emplaced a number of sanctions against Russia in response to the war in Ukraine. Policymakers and pundits have debated the efficacy of these measures, but this debate is belied by a deeper question: What does it mean for sanctions to "work"? In new BPEA research, Oleg Itskhoki of Harvard and Elina Ribakova of the Peterson Institute for International Economics explore fundamental questions of the theory and practice of sanctions in the Russia context. On this episode of the Brookings Podcast on Economic Activity, Ben Harris, director of Economic Studies at Brookings, joins the authors for a discussion on what's next for Russia and developing a doctrine of economic statecraft.

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EBERLY: I'm Jan Eberly, the James R. and Helen D. Russell Professor of Finance at Northwestern University.

STEINSSON: And I'm Jón Steinsson, Chancellor's Professor of Economics at the University of California, Berkeley.

EBERLY: We're the co-editors of the *Brookings Papers on Economic Activity*, a semi-annual academic conference and journal that pairs rigorous research with real-time policy analysis to address the most urgent economic challenges of the day.

STEINSSON: And this is the *Brookings Podcast on Economic Activity*, where we share conversations with leading economists on the research they do and how it will affect economic policy.

The topic of today's episode is the sanctions the U.S. has put in place against Russia in response to its invasion of Ukraine. These have been in place for over two years now, and many policymakers and commentators have debated their efficacy.

In a new paper, Oleg Itskhoki of Harvard University and Elina Ribakova of the Peterson Institute for International Economics start by taking a step back and asking the lager question, what does it mean for sanctions to work? They join Ben Harris, Brookings vice president and director of the Economic Studies Program at Brookings, to discuss their paper titled, "The economics of sanctions: How do they work in theory and in practice?"

EBERLY: Economic policy has become a larger part of international relations and diplomacy, with sanctions of goods and services, financial services, and payments being deployed to try to resolve international disputes or to prevent them in the future. Oleg and Elina show what these tools are intended to do, what they do in practice, and when they can be a double-edge sword. Higher prices, for example, can affect the global economy, not just the sanctioned country, which may also be interconnected with other countries that have their own agendas.

STEINSSON: Yeah, sanctions on a large country like Russia clearly can't be effective unless the countries imposing the sanctions are willing to bear the costs that the sanctions impose on them, such as higher oil prices in this case.

But let's turn it over to Ben to hear his discussion with Oleg and Elina.

HARRIS: Thank you, Jan, thank you, Jón. Really appreciate it. Very much looking forward to today's podcast. Let me start off by saying hello to our featured authors today. Elina, welcome.

RIBAKOVA: Thank you. It's a pleasure to be here.

HARRIS: And, Oleg, welcome to you.

ITSKHOKI: Hi. Great to be here.

HARRIS: Great. So, let's just jump right into it. One of the things that I really liked about your BPEA paper was that you take on both theory and practical application of sanctions. So, oftentimes when we hear about sanctions, there's sort of this assumed theoretical underpinnings to the sanctions. We don't really talk about why these sanctions are being levied in the first place or what the ultimate goals are or how we'll evaluate the efficacy of the sanctions. So, your paper does a really good job, I think, of marrying the two.

But can we just sort of jump right into the fundamental question? The title of your paper is how do sanctions work in theory and in practice. So, before we dig into specific examples, let's just start with that, maybe some background. What are sanctions and what effect are they designed to have and what do they do in practice?

[3:35]

RIBAKOVA: Thank you. We want to think about sanctions as something broadly defined, because when you look at the press, sanctions brings a lot of kind of associations to people. So, we want to say, look, this is economic statecraft. This is using tools of economic policy to exert pressure to achieve national security, foreign policy, or maybe even military security objectives. So, this is how we think about economic statecraft.

And economic statecraft encompasses a lot of measures. It includes sanctions—financial sector sanctions. Many people more recently will say, well, sanctions is just about finance. No, if you look at the historical literature, actually, sanctions were mostly about trade historically. Right? But then since the U.S. got so successful with financial sanctions, we identify now it with finance. So, it can be limits on the … on finance. It can be limits on access to foreign markets. It can be limits on trade. So, it's all other measures of economic statecraft put together.

Why are sanctions used? I think you asked a fantastic question. When people think about sanctions, they think, oh my goodness, they're going to achieve everything. No, it is not a magic bullet. Various dictators around the world are not going to die tomorrow or lose their power because we impose sanctions on them.

So, I think it's important to be realistic about the use of sanctions. They might be more realistically to deter somebody from doing something. So, for example, if in 2014, Putin invaded partially Ukraine, we imposed sanctions and signaled certain sanctions to say, look, if you move further this is what's going to happen. And potentially, and we also argue in our paper, that might have stopped Putin from moving further into the country.

Sanctions can be also about imposing costs. Once you have done something evil, well, we're going to impose sanctions on you because we want to impose costs. Sanctions specifically in 2022 case on Russia–and, Ben, you know more than anybody else about it here–is about degrading Russia's ability to continue the war. That's another wonderful measure. So, realistic sort of targets, measurable targets are good targets. Sanctions that in theory should change the regime that gets a bit more complicated.

[5:43]

ITSKHOKI: And to add a little bit more background to this description. Right? You pointed out trade and financial sanctions. It's actually important to keep the two separately. So, the two things that connects countries internationally, one is trade. And in principle, in the limit of full sanctions policy, you can cut down this trade to zero. You can put the country into autarky where the country needs to produce on its own everything that it needs. You know, in the modern world no country does that. There is a lot of trade linkages. And so, what sanctions do they really on the margin reduce the trade overall or trade in particular inputs that, for example, are used in military production or dual use goods. And so, those are sanctions on trade.

Sanctions on trade are costly because it means that both countries would trade less. Both the sanction coalition would trade less, and the country under sanctions would trade less. And so, this is the way the impact is generated. Right?

But the second type of sanctions are financial sanctions. And the idea, the premise, is that countries rely on Western financial systems. They use dollars in transactions or as a vehicle of savings for liquidity. They use payment systems such as Visa and Mastercard. They require clearance of international payments using SWIFT. And so, this is the Western infrastructure. It's not trade in goods, but it's the use of Western financial infrastructure. And this is a different type of sanctions, right? That you can impose directly on the financial system. And this is sort of, in a way, a less costly thing that Western countries can do to the extent the country that they're trying to impact relies a lot on these financial services.

HARRIS: Great. Well, thank you for that helpful background. Let's dig into the paper a bit more. So, in your paper, you note that sanctions policy is less likely to be effective against countries that can easily substitute away from foreign goods towards domestic ones. So, this suggests in general that countries with larger economies can weather sanctions better than those with smaller, more dependent economies. Do you guys mind elaborating on this? In terms of international trade, what are the characteristics of a particular economy that can make sanctions especially impactful? When are they less likely to work?

[7:57]

ITSKHOKI: Yes. And so, this is the basic insight from international trade, is that, of course, the more countries trade with each other the more impactful would be sanctions on limiting those trade flows. Right?

And so, here there are two factors that really matter. How much do you trade? And so, if you're imposing sanctions on the small country, the small country tends to be small from the perspective of the rest of the world. So, the rest of the world does not rely so much on the goods produced on the small country. But for the small country, the rest of the world is very important. And so, when there is a big difference in size between the sanctioning coalition and the country on which you're trying to exert influence, this is when the sanctions are most effective and least costly for the sanction coalition. Right? Because they can leverage their relative size. This is the first lesson.

And the second lesson, sanctions are costlier the harder it is to substitute away. Right? So, if you stop selling some crucial goods to a country and the country needs to produce those goods domestically, that's one situation. The other situation is when that country can source those goods from other countries. Right? If the other countries don't join the coalition and are willing to substitute the trade with the coalition, for example, of Western countries, the sanctions are much, much less costly because that substitution is much easier to do than to procure all the goods domestically.

And so, as a result, these are really the insights. It's how much you trade and how easy the country would find it to substitute away from the goods that you trade.

[9:23]

RIBAKOVA: I think it's about making a list of items which is the most costly for the sanctioning country going down. And that aside, what is the most painful for the country being sanctioned, going down. And you try to flip that and find this sweet spot of leverage where U.S., for example and its allies have the most leverage and it's least costly, but at the same time is very impactful in Russia. And in 2014, that was found very wonderfully because that was the financial sector axis. Russia at the time borrowed more than $700 billion in outstanding gross debt. And for the U.S. markets, you know, Russia was pretty much negligible. So, cutting off Russia from the financial markets and its sectors of the economy was very impactful.

But then of course, now it is more challenging. This larger, more integrated into global trade economy might have the dominant power in a market. In Russia's case, its energy markets, which makes it also costly for the sanctioning coalition. And on the other hand, as Oleg has explained, if there is a coalition of countries that is willing to help Russia, you know, that means our enforcement has to be so much more powerful. And I think here we need to bring the question of enforcement. It's not just enough to announce something, but it's also extremely important to enforce what you are announcing.

HARRIS: That's great. So, you brought up a bunch of issues, which we'll get to later on. You brought up Russia in general. You brought up Russia and energy markets and specifics, which we'll get to in a second. And you also brought up enforcement. But before we jump to the Russia context, maybe we can just pause for a minute and talk about financial sanctions. And so, you made that distinction from the outset, the difference between sanctioning financial transactions and sanctioning trade. And so, can you explain to us circumstances when financial sanctions will and won't work and also when financial sanctions might be counterproductive?

[11:12]

RIBAKOVA: Well, financial sanctions in the U.S. when the banker hears that, they ask how high? They don't ask, do I jump? They ask, my goodness, how high? But it hasn't been always like that. You Ben, of course, remember very well—and Oleg as well—in the early 2000s, post-9/11 with the PATRIOT Act and other measures and Treasury finding its secret power. It wasn't immediately the case. You know, Treasury invested a lot of time. Once they understood that they're controlling the critical nodes, they have the dominant power in the global provision of financial services. And it's not just about the dollar alone, as Oleg explained very well, this is also about financial infrastructure. It's holding the critical nodes and being able to control them, sometimes even physically. Right?

So, this is the power of the U.S. financial sanctions. Once they realized that, the U.S. authorities realized, they started building global infrastructure. For example, anti-money laundering rules, you know, reaching out to international institutions, saying this is extremely important. We want to clean up the financial system.

And I think it's a very honorable, it's a great thing to do. But at the same time, it enhances the leverage of the U.S. financial sanctions. So, I think that's why 20 or more years on, we know that the financial sector sanctions are extremely impactful. So, on the way, we've had multibillion dollar fines applied to banks who didn't quite get the memo the first time around; eventually they got the memo.

So, what are the risks, would you say? When can it be counterproductive? When there isn't a global understanding, and we'll get to it, about the doctrine. Some countries will say, no, you're just trying to make my life difficult. It's not about anti-money laundering and cleaning up the financial system. It's about you trying to put me down for other orthogonal geopolitical reasons. So, therefore, what I'm going to do, I'm going to create fragmentation. I'll try to drive some of my markets to other nodes. I will try to remove the centrality of the U.S. node and move somewhere else. And in practical terms, that means I will try to diversify. Maybe I will try to find alternative systems to SWIFT. I'll try to find alternative systems to U.S. dollar settlement. I will try to fragment the market. And this is the key risk because as fragmentation takes hold, then, of course, the effectiveness of the U.S. sanctions will be also less impactful.

[13:23]

ITSKHOKI: And just to add to this beautiful description, it's important to emphasize financial sanctions are cheap. It's easy to impose them. It's easy relatively to enforce them in comparison to trade sanctions. And so, if you have that instrument, you really want to use it. Unlike, for example, sanctions on trade, where you have to give up purchasing cheap Russian oil or gas—that's costly for the countries. But imposing sanctions on the financial system comes almost at no cost.

The problem, exactly as Elina described, when countries anticipate that, especially if they were given the warning, they would wean themselves of the Western financial systems. They will use dollar less. They will use payment systems less. They will use clearance systems less. And that's exactly what we observed, right? The financial sanctions that were imposed and announced in 2014, the Russians knew they were coming and prepared over the next eight years. And the strategy was to actually fragment itself from the Western financial system, rely more on the domestic financial system, more on their fragmented systems with China and other countries, which makes financial sanctions at the next stage so much less impactful and effective.

And so, while the West would love to use them more, there are limits which come from the fact that countries can substitute to alternative financial systems.

HARRIS: That's really interesting. So, it's your view that in 2022 through 2024 and perhaps longer, that the U.S.'s ability to levy financial sanctions on Russia is diminished because Russia responded to the 2014 sanctions by laying out a groundwork to avoid future sanctions by the U.S., which came 10 years later?

[15:06x]

ITSKHOKI: Absolutely. And in fact, what you see is when would the sanctions work? Well, when the country relies a lot on the Western financial system. And Russia increasingly was reducing its reliance on the Western financial system, limited the amount of external debt. It started the full-scale invasion in '22 when it was relying very little on Western financial markets. It did a lot to try to replace domestic payment systems.

It was not quite ready to the sanctions that were announced at first on the Russian assets. That came as a big surprise because it did change the existing rules at that moment, and that was an effective surprise. But at the next iterations, there would be much less surprise. And the countries that want to break international rules will know that this is coming, and we'll prepare for this accordingly.

The question is how effective would be the international payment systems? And what we see so far is settling international transactions are still difficult without relying on Western banks and Western payment clearances. And this actually proved to be some of the effective secondary sanctions to enforce the trade sanctions that are in place.

HARRIS: So, we've been speaking about Russian sanctions. So, let's dig in there a little bit more. Clearly, the sanctions levied against Russia were one of the major motivations for this paper, which makes it, I think, particularly timely. One of the components of that sanctions campaign is a price cap on Russian oil, which I worked on extensively when I was assistant secretary at the Treasury Department. So, as we on this podcast discuss Russian sanctions a bit more, do you guys mind first summarizing the sanctions regime levied against Russia and also discussing, which you alluded to earlier, whether or not you think it's been effective?

[16:52]

RIBAKOVA: So, in terms of the sanctions on oil that you know so well about, I think it's a wonderful example because it encompasses different policy difficulties and benefits. So, one is Russia is a dominant player in the oil markets. Right? We do have an issue, of course, at the center. So, just saying that Russia is not allowed to export 1 or 2 million barrels per day that it's contributing to the market—well, contributing more—but to withdraw that much, it might have an impact on price, right? that might be costly to us in the sanctioning coalition. So, what do we do if we want to undermine Russia's ability to which the war on Ukraine? We want to reduce their revenues.

So, eventually we have these oil sanctions or oil embargo from the EU and then global G7 oil price cap, which says, look, we want to have Russian oil flow to the market, but at the same time, we want to reduce Russian revenues. These are two objectives. Sometimes they come in conflict, right? And that's when things get challenging. This is the reality of the policymaking. Nothing is straightforward and first best.

So, we ended up with the second-best solution: oil price cap together with the embargo. I think in the early days, and we have also a paper with Oleg and colleagues on it, is that we have seen the big wedge open from the price at which Russia was selling oil versus the price on the global markets. And that wedge opened because Russia had to find new markets.

As you know from Druzhba times, which is the pipeline that was completed in the '60s, Russian infrastructure is mostly in the European part, the oil infrastructure. And then the shipment mostly, or that the pipeline used to go to Europe. So, that worked wonderfully for many decades. Right? But now it had to find the ships and the way to go all around Europe and make its way to China and India. That's much more expensive, right? That's much longer travel times. So, we created the wedge of the cost, combination of the embargo, first and foremost, on the marginal oil price cap. And that had an impact.

However, over time we hit two constraints. One is the so-called attestation process. In the oil price cap, for Russia to be able to get the services for the shipment, it needed to show documentation that it's selling oil under the oil price cap of $60. Well, if somebody were to ask me to pay my taxes with only a piece of paper that says, "Elina made no money this year and therefore shouldn't pay any taxes," well, that will be not always honorable. Maybe Elina will last, but at sometime Elina will break and will start cheating.

For Russia, the $10 difference on the oil price cap is more than $20 billion per year. This is a huge incentive to cheat. So, our attestation process was not good enough always to force Russia to comply with the oil price cap. That is one.

On the other hand, Russia moved towards so-called shadow fleet. The ships that do not get the service and are not registered in the G7 country coalition of sanctions. That means we basically have no leverage to impose this attestation process on Russia. And now the shadow fleet ships more than 70% of all the seaborne oil. And Russia maybe spent around $10 billion on that shadow fleet, which is again good because it's imposed a cost. But it's also difficult because it moves Russian oil away from the attestation process. So, it's a fantastic story. We can have another podcast on it, but this is in brief our regime on the Russian oil.

[20:13]

ITSKHOKI: And to add a little bit more context to this discussion, it's important to keep in mind that Russia exports about 5 million barrels a day, and that quantity has not declined in the last two-and-a-half years. So, it's been 5 million barrels a day, very stably, despite all the sanctions and embargo. So, the destinations shifted from Europe to China and India, but the quantities stayed the same. And at the same time, it's important to emphasize Russia exports at much higher world prices than before the invasion. The prices reached beyond $100, then they stabilized above $80. This is all very far from the $60 cap.

So, on one hand, you can say that, yes, a part of the price was shaved off by an embargo, by various sorts of restrictions imposed on Russian energy sector, by the price cap. But at the same time, Russia was receiving a higher price than before the invasion. And a lot of this money went towards financing the war in Ukraine, or most of this money went towards financing the war in Ukraine. And in that sense, the policy was ineffective. It did not curb the revenues.

So, in a way, a price cap is a useful tool. It should not be discarded. It should be kept. But it's only effective when you can really bring down the world market prices. Right? If the market prices are much above the cap, it's very hard to enforce it. If world prices come down, then the cap is also becoming increasingly more effective and easier to enforce. And so, what we have not really seen much until perhaps very recently is the world oil prices coming down. And when the world oil prices are lower, it's much easier to enforce a lot of those policies.

HARRIS: So, is it safe to say that your assessment of the price cap on Russian oil is that it was a creative design in theory, but that in practice enforcement wasn't sufficient to achieve its main objectives? Is that a fair characterization?

[22:08]

RIBAKOVA: Yes, I think it is a fair description. And I think what is not fair sometimes is comparing that to financial sector sanctions. Because financial sector sanctions, U.S. has the control of the critical node. In the oil markets, U.S. doesn't. Financial sector sanction been used for more than 20 years. This is a new creative measure. Right? Financial sector sanctions are based on the industry, which is heavily regulated, prone to bank runs and wholesale bank runs. Right? So, it's obvious that we have much more power there. Oil price, not so much.

But where the U.S. has been very effective is trying to bring back financial sector sanctions, leverage them, including sort of a hint of secondary sanctions to be able to enforce this new creative measures. So, for example, OPEC sanctioning tankers has helped to clean up a lot of the Russian shadow fleet. So, I think this is an example where these measures can work together.

[23:01]

ITSKHOKI: And it illustrates really well the common message that we're trying to send throughout the paper is that sanctions are a tool. Price cap is one example of a tool that you want to use. It is creative, but it's not the silver bullet or a magic wand—it doesn't solve all your problems. So, you have to set the right expectations of what you can get from it. And the right expectation when the oil price is $100 a barrel is that the price cap will be difficult to enforce. And so, if you start approaching it with the right expectations, then I think it makes a lot more sense. And it's clearly a tool that should be part of the toolkit for the for the Western policymakers.

HARRIS: Great. Let's stay on this topic of evaluating the impact of sanctions. So, when I was at Treasury, one aspect of sanctions that we often discussed was the notion of frictions. So, these are essentially the costs or other impediments to trade and economic activity imposed on sanctioned countries. So, in the context of the price cap, for example, and Oleg, you noted this earlier, this included a widespread reshuffling of trade routes for exported Russian oil, which substantially elongated the time and costs of each shipment of oil. So, instead of just 2- or 3-day trip to the Netherlands, we're talking about maybe 3-, 4-, or 5-week trips to ports in India. And you allude to similar costs associated with financial sanctions in your paper. So, you bring up, for example, bank runs within Russia in response to the financial sanctions levied in the wake of the invasion of Ukraine. So, how do you both think about frictions in the context of optimal sanctions policy?

[24:38]

RIBAKOVA: I think it is critical part of the sanctions policy to create this friction. You can think about sanctions, and you've seen it also in the literature and we'll talk more about that in this paper, is that it's a market intervention at the end of the day. It's a government policy intervention to achieve a certain objective or sort of a greater public good, if I may. Right? So, therefore, it is based on the principle of creating friction in the market, and therefore we should explain why we're creating this friction and what are the benefits and how we're planning to achieve this friction.

So, in the case of Russian oil example, indeed, if I'm going to sell water cheaper in my office versus the next door, right? you know, I'll have a stampede of people until I create friction to prevent them from coming in. Right? The same thing was the Russian oil price cap situation. So, the fact, for example, that we forced Russia to spend money on the shadow fleet—and we're going to have another paper coming out soon about it—is that it's about $10 billion, roughly, that Russia was forced to spend on the shadow fleet. That's a very useful friction. It is something that they didn't spend on the weapons.

At the same time about the attestation process, we didn't create enough friction and a lot of less scrupulous traders continued to work with Russia. The same thing about the financial sector sanctions.

One could say that one of the frictions is that we need to be able to have compliance departments in the banks. They could say, well, why am I supposed to do that? But on the other hand, we're all interested in the national security of the country, and sometimes we are, by extension, being tax departments when we submit our tax forms, right? Or sanction departments of the Treasury when we're screened for unscrupulous investors for payments going through the system.

[26:18]

ITSKHOKI: So, there is absolutely no doubt that adding more frictions through international trade for Russia or to financing is useful. Exactly as Elina pointed out, that shaves off a part of the revenues or increases the costs. And if you can shave off $10 or $20 billion, it's $10 or $20 billion less for the war financing. At the same time, to keep it in that perspective, Russia spends about $200 billion a year on the war and sells about that much of oil to the world market. And so, in that sense, if you shave off 10% or 20% of the revenues, it's useful, but it's only 10 or 20%.

And so, in that sense, you need to have reasonable expectations. Ten [percent] or 20% less revenues will not put an end to the war or to a substantial chunk of the financing. But still, it's very useful. And so, the question is, how can you amplify it?

How can you be more effective in imposing those costs and shaving off a bigger chunk of those revenues?

HARRIS: Great. Now, so Elina, you just brought up national security. So, let's end with a big picture question in the spirit of the point you just made. So, at a Brookings event this summer, Daleep Singh, who is the deputy national security advisor for international economics, gave a speech and he talked about the need to develop a doctrine of economic statecraft to help govern tools like sanctions as well as economic tools that would be mutually beneficial. So, I think your paper would be a useful background for that effort, that is, the development of a doctrine of economic statecraft. Moving forward, how do you see sanctions policy evolving in the coming years? And what do you hope policymakers will take away from your research?

[27:59]

RIBAKOVA: We're absolutely flattered to be called the background for this doctrine of economic statecraft, because I couldn't agree more with Daleep. And if anything, we think that we also thought about it at exactly the same time.

I think it is critical indeed to think about the doctrine and also think about the positive and negative reinforcement. Right? We keep on thinking about sanctions, negative reinforcement. But also, it can be positive. For example, better trade regimes for countries that do work with us. And for example, Yellen has spoken about it with so-called "friendshoring." Or it can be subsidized credits to countries in to bring them into our coalitions, the so-called fence sitting countries.

So, again, economic statecraft gives you all the tools. It gives you the government various tools. So, we don't think that one tool can be a magic wand. None of them is. But in combination, they can be very impactful in terms of achieving certain measurable objectives. And I think that should also be part of economic statecraft.

Of course, if you don't have a target, you cannot miss it. But it would be nice for the effectiveness of the sanctions to actually have specific measurable targets and then measure our results against those targets to the extent we can and do the cost-benefit analysis that should also be part of this economic statecraft doctrine.

And I think what is critical is a good doctrine should minimize fragmentation. For example, I was not long ago at a conference in China talking about the global financial system. And what many Chinese academics say, and policymakers, that, look, it's all about geopolitical confrontation. The U.S. wants to put China down because we have, as a GDP numbers—they love to show this chart—we have caught up with them and they're putting sanctions on us. And I'm saying, no, it can also be for other reasons, not just about you. Right?

And if we were to have this doctrine, which would explain that if a country refuses to abide by certain international rules, they shouldn't enjoy the benefits of this global international financial infrastructure. So, therefore, if something were to happen to China and it would have to retaliate, not just military, but otherwise, they would also have an option of the financial sector sanctions or other sanctions within this global doctrine.

Of course, this is, one could say, wishful thinking example, but it does highlight the fact by having the doctrine, it's much easier to bring countries on our side for the sanction coalition countries when we have these rules and regulations of using this. Of course, it also raises a good question, who is going to monitor that? WTO, Global Bretton Woods institutions? NATO? That of course is even more complex discussion that we'll leave for the next podcast.

[30:33]

ITSKHOKI: Yeah. And in the absence of such a grand bargain about what the doctrine is, what mutually agreeable rules of international engagements are, and what are the punishments for violating them, we're likely going to see more fragmentation exactly like we already discussed, that countries would need to prepare for the possible use of sanctions against them, and they would try to substitute the Western financial system for the alternatives and making sanctions less impactful. So, basically, the alternative to actually having a world coalition enforcing those rules is a world with a lot of fragmentation.

HARRIS: And so, can I just summarize? I had four major takeaways as far as what you hope that policymakers learn from your paper. One, provide positive reinforcement, not just negative reinforcement for actions. Two, provide measurable targets, perhaps not just obscure approaches to sanction. We want to identify the targets and then measure whether or not we're hitting them. Three, perform a cost-benefit analysis. So, it's not just about the benefits of sanctions, we also have to consider the costs on the country that's imposing the sanctions. And fourth, and you both spoke about this to a fairly large extent, minimize fragmentation with the sanctions. Is that a fair summary of the four major takeaways?

RIBAKOVA: Absolutely.

HARRIS: Thank you so much. This was a fascinating paper and a wonderful podcast. You did a terrific job of explaining economic statecraft. I think this will be an aspect of policymaking which will be with us for years, if not decades, to come.

[music]

And I'm sure that your paper will provide useful context as those developments play out.

Oleg, Elina, thank you so much for joining us today.

ITSKHOKI: Thank you, Ben.

RIBAKOVA: Thank you.

STEINSSON: Once again, I'm Jón Steinsson.

EBERLY: And I'm Jan Eberly.

STEINSSON: And this has been the *Brookings Podcast on Economic Activity*. Thanks to our guests for this great conversation and be sure to subscribe to get notifications about new releases of this podcast.

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