Chapter 1
To Sanction or Not to Sanction?

On June 25, 2006, an Israeli soldier was kidnapped by militants, known as “Hamas,” after a raid into Israel from positions in the Gaza Strip. The soldier was held hostage and his captors’ demands included the freeing of over one thousand jailed Palestinians. As a reaction to this kidnapping, where one soldier’s life was in question, the Israeli government ordered troops over the border into Gaza to destroy bridges and electric transformers and to shut off all utilities to the suspected location of the Hamas kidnappers. The limited invasion sought to constrain the kidnappers’ activity and find the soldier in question, not to initiate full-scale conflict against Hamas in Gaza. On July 5, however, as negotiations closed in on a stalemate, the Israeli army began to mass on the Gaza border for a full strike.¹

On July 12, 2006, an extremist arm of Hamas, called “Hezbollah,” captured two more Israeli soldiers after crossing the southern Lebanese border. Lebanon as a nation, accused of providing a home to Hezbollah and acting as an armory for Hamas, was in the middle of this conflict. An Israeli naval and air blockade of Beirut, Lebanon’s capital and largest port, was an act of economic coercion. The damage to Lebanon and her people was front and center in the international community’s eyes concerning the human cost of this sanction and parallel military action. U.N. Security Council Resolution 1701 effectively ended the conflict in August 2006 (Sharp 2006, 4).

On July 4, 2006, North Korea conducted missile tests for a long-range weapon system claimed to be capable of reaching U.S. shores. Before July, after months of diplomacy, North Korea began to come around and discuss the delay of such tests and also not pursuing atomic weapon manufacture. The missile test provoked reactions worldwide, especially from the United States; the United Nations immediately began deliberations on imposing economic sanctions against North
Korea. The United States urged immediate action and found many allies. Other countries, such as Russia and China, were initially against sanctions and wanted more diplomacy. The U.N. Security Council passed Resolution 1695 as a weak reaction on July 15, 2006.²

In the Israeli case, military force made the threat credible that actions against Israel were going to be met swiftly and violently. By closing off the border into Israel and Beirut’s port, the Israeli government ostensibly embargoed both the Gaza Strip and Lebanon for the actions of a relatively small number of people. In the North Korean case, the entire international community saw the missile tests as objectionable. A North Korean underground nuclear test in October 2006 showed further defiance. On October 14, 2006, the U.N. Security Council initiated arms sanctions in full with Resolution 1718.

Economic sanctions, wherein economies use trade and financial ties with other nations as diplomatic instruments, are not always used as proactive moves or reactions to international deviance and are relatively new as devices of international conflict resolution. When should sanctions be used? Why should they be used? Will they be effective, and what role do they play in international relations? American foreign policy since 1945 has been a strange mix of both economic coercion and military engagement as second or third steps in diplomacy. Many countries have used sanctions as diplomatic instruments; however, the United States has been by far the leader on these policies’ use. Figure 1.1 breaks down the sanction cases to date and American involvement.

This text aims to achieve the following goals. First, this study attempts to survey not only where the sanctions literature is to date but also how economists describe various aspects of a sanction episode. Basic economics is essential to understanding these policy choices and their rationale. Cartel theory helps understand why institutional, multilateral, and universal sanctions may succeed or fail. Public choice theory tells us that policies aimed at specific interest groups within the deviant economy, those focused on decision makers, may sway another country’s politics. For this reason, the literature review is scattered throughout the text, connecting the most appropriate works to specific topic areas, rather than all lumped into one chapter. Appendix 1 provides more literature sources and brief synopses of sanction episodes.

This book’s central theme is to examine sanctions as macroeconomic policies that seek marginal movements toward diplomatic goals. The second goal is building an open-economy macroeconomic model describing welfare redistributions from economic coercion. The