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## Financial sanctions can have unintended consequences

May 21 2007 [John Cassara](#)

Last month, Deputy Assistant Secretary Danny Glaser, a former Treasury colleague of mine from the Office of Terrorism and Financial Intelligence, testified before a committee of the US House of Representatives examining "The Use of Sanctions and the International Financial System to Change Regime Behavior". The [testimony](#) was decidedly positive, offering the committee a somewhat unbalanced view.

Targeted financial sanctions and designations have clearly become a favored tool of the United States; despite their popularity, however, the effectiveness of such measures is questionable.

### Treasury touts 'targeted' sanctions

The US Treasury believes that its new generation of "targeted" measures are a marked improvement over the general sanctions of the past. General sanctions, such as those used to pressurise South Africa to abandon apartheid and convince Libya's Muammar Gaddafi to turn over the Pan Am 103 bombers for trial, tend to punish everyone in the sanctioned country, needlessly harming the poor, Treasury has correctly noted.

Furthermore, today's sanctions give the Treasury a varied arsenal of economic weapons in the concurrent "wars on terror and drugs". For example, Executive Order 13382 targets entities in North Korea, Iran and Syria, prohibiting US persons from engaging in transactions and requiring that those entities' assets must be frozen. Treasury also employs EO 13224 to target Iran's terrorist support networks. To date, the United States has targeted approximately 460 individuals and entities pursuant to EO 13224.

In addition, Section 311 of the USA PATRIOT Act authorises the US Treasury to take special measures to protect American and international financial systems from money laundering and terrorist financing threats associated with three foreign jurisdictions and eight foreign financial institutions.

These financial weapons are increasingly attractive to policymakers, particularly in the stalled war against terrorist finance. As former Treasury Secretary John Snow noted: "When the US is confronted with a threat that is unreceptive to diplomatic outreach and when military action is not an option, [financial] tools are often the best authorities available to exert pressure and to wield a tangible impact."

Weapons have, however, been known to backfire. Sometimes the rule of unintended consequences comes into play.

### The downside: Sanctions spawn corruption and money laundering

For example, some observers have argued that the sanctions imposed on the former regime of Saddam Hussein led to systematic corruption in many Iraqi institutions, entrenched underground smuggling networks, and a rot in Iraqi society that impedes coalition efforts today.

I was in Belgrade a few months ago, discussing corruption with Serbian officials. Contrary to the rhetoric of the US Treasury, they emphasized that the same sanctions that helped bring Slobodan Milosevic to Dayton hurt the common people the most. Criminal groups were apparently the biggest winners, thriving in a corrupt environment fostered by sanctions.

Fraud and smuggling networks do not simply disappear when sanctions are removed or the conflict ends. Organized criminal networks and the vested interests that bolster them become entrenched. Embargoes often encourage smuggling, an efficient network of front companies, money laundering, underground finance, and tremendous profits for those involved in the black market. Law enforcers have seen time and again that whenever a regulatory barrier is put up, the unscrupulous will circumvent it.

Additionally, sanctions often have the unfortunate side-effect of forcing previously monitored activity underground. From an intelligence standpoint, this can have disastrous consequences. "Following the money" is effective. Sometimes it is best to monitor troublesome activity quietly and follow the financial trail rather than tip off our adversaries by publicly imposing sanctions. Yet political considerations can get in the way, and the temptation to "do something" can negate effective intelligence gathering.

In fact, the results of such measures are very difficult to quantify. As of the end of 2005 the amount of terrorist assets that have actually been "seized" (as opposed to simply being "blocked") was virtually unchanged since the beginning of 2002. Perhaps as a result, the Treasury has not released fresh figures for 2006.

#### **Advice for the Treasury: Go after the big fish**

What do Belarus, Burma, Cote d'Ivoire, Cuba, Sudan, Syria, Zimbabwe, Latvia, Ukraine, Nauru, Syria, and Burma have in common, besides being Office of Foreign Assets Control or 311 targets? The answer: None of them actually threatens the US or international financial systems that Treasury is trying to "protect." They are international lightweights.

If the US insists upon utilizing strong financial measures, it would win more international credibility if it applied its sanction to countries that actually pose serious money laundering and terrorism finance threats. For instance: After September 11, why was no action taken against Saudi Arabia and the United Arab Emirates? The basing of such enforcement decisions on political expediency weakens the moral authority the US so desperately needs.

Although some sanctions can be effective, they are not the panacea that some seem to believe, and under the wrong circumstances, they can do much more harm than good.

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