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Targeting autocrats: Economic sanctions and regime change

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ABSTRACT

When it comes to international economic sanctions, the most frequent goal is *regime change and democratization*. Yet, past experiences suggest that such sanctions are often ineffective; moreover, quite paradoxically, targeted regimes tend to respond with policies that amplify the sanctions' harmful effects. This paper offers a political-economy model which provides an explanation for these observations. An autocratic regime lowers the supply of public goods to reduce private-sector productivity and hence the resources of potential challengers. As a result, sanctions-induced challenges become less likely, thereby buying the regime time to find exile opportunities. If these opportunities turn out to be of low quality, the regime prefers to hold out — and the sanctions fail.

1. Introduction

Over the course of the 20th century, international economic sanctions have become an increasingly important foreign policy tool. Since the outbreak of World War I, there has been a total of 187 sanctions episodes, about 66 of which started after the collapse of the Soviet empire (Hufbauer et al., 2007, Tables 1A.1 and 1A.2). Economic sanctions usually combine restrictions on international trade and investment and are generally viewed as an instrument to induce specific changes in a target country. In practice, sanctioning states have indicated a variety of goals but the most frequent by far is to promote democratization by pushing autocratic (or even despotic) regimes out of power (46% of the cases in the 1914–2000 period).

Yet, despite their frequent use, our knowledge about how economic sanctions might foster *regime change and democratization* is very limited. There is a general notion that, as Mack and Khan (2000) put it, "the pain inflicted by sanctions on citizens of target states will cause them to pressure their government into making the changes demanded by the sanctioning body." But very little analytical work has actually been devoted to the exact channels through which sanctions are supposed to promote democratization. As a result, our understanding of the factors determining the likelihood of success and failure is highly incomplete. It is the purpose of the present paper to make some progress in this regard by building a political-economy model which reflects some basic features of a typical target country.

A closer look at the history of economic sanctions aiming at regime change and democratization corroborates the view that a better understanding of their use and consequences is required. In particular, past experiences with such sanctions offer a number of observations that are puzzling. One of these observations is that targeted regimes hardly try to dampen the negative economic

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consequences; targeted regimes rather tend to respond by pursuing policies which severely compound the sanctions' adverse effects on the economy. For instance, as I will discuss in Section 3,the governments of Haiti (in the 1991–1994 period) and Iraq (in the 1990–2003 period) hampered economic activity by aggressively cutting the supply of public services or by directly preventing people from pursuing their businesses.[1] Referring to the situation in Iraq, Mueller and Mueller (1999, p. 49) even note that "the country's political leadership sometimes seems more interested in maximizing the nation's suffering (…) than in relieving it." Clearly, such behavior requires explanation: What interest does a targeted regime have in a further degradation of the economy's productive potential? One answer could be that regimes behave like this for propaganda purposes, i.e., to signal how "inhumane" the sanctions are. However, as the following review of evidence illustrates, this is hardly the only explanation: In Haiti and Iraq, the regimes' harmful measures were not confined to places in the spotlight of the press (like major cities); it rather appears that these measures were applied very broadly, i.e., also in highly remote areas the world did not focus on.

A second interesting observation concerns the use of sanctions to promote regime change and democratization. It appears that many of these sanctions episodes ended prematurely, i.e., the sanctions were lifted after a couple of years even though the intended goal had not been achieved. According to Hufbauer et al. (2007), there was a total of 57 such episodes in the 1914–2000 period.[2] Yet, only 12 of them (or 21%) can be judged as at least "partly successful" — which means that the stated goal was at least "partly" achieved and that the sanctions' contribution was at least "substantial".[3] In 37 cases (or 65%), the sanctions were lifted although regime change and democratization was not even partly accomplished (after six years on average). Eight episodes were still ongoing in 2000. Again, this observation requires explanation: Why might a sanctioning body (e.g., the UN Security Council) suddenly abandon a long-standing sanctions regime that has not yet paid off?

The political-economy model I am proposing to look into these issues rests on three simple elements. First, consistent with the focus on regime change and democratization, I consider an autocratic target country, i.e., a country where the government has substantial leeway to implement its preferred policies but also to divert public resources for its own benefit. Second, the state plays an important role in the private sector of the economy: By providing public goods and services, the government can affect the productivity of private firms and hence the citizens' incomes. Third, challenging the regime in order to promote a transition to democracy comes at an economic cost: During periods of power transitions the public sector is paralyzed so that the economy as a whole becomes less productive.

It turns out that this simple framework offers an intuitive explanation for both of the observations outlined above. At the heart of this explanation is that the incumbent elite may use the supply of public goods as a tool of defense, an aspect that has so far been neglected in the literature. To see how this works, consider a country that has just been placed under a sanctions regime. As intended, the application of economic pressure makes a switch to democracy more rewarding to the ordinary citizens. The sanctions regime thus renders a previously reluctant citizenry more inclined to revolt. Yet, this is exactly what the ruling elite wants to prevent as the consequences of a revolt would be more damaging than an orderly exit — which, however, requires time to organize. To buy this time, the elite has to discourage any challenges from the citizenry by making challenges more costly – and a straightforward way to do so is to decrease the supply of public goods[4]: With a lower level of public goods, the citizens' incomes are lower and, as a consequence, a given cost associated with a revolt translates into a bigger loss in terms of instantaneous utility. In fact, the evidence I am going to discuss below suggests that the Iraqi government's strategy to make the middle class struggle was instrumental in preventing serious challenges to its rule.

But not only ordinary citizens fare badly. The situation for the ruling elite deteriorates as well because the economy generates less output due to the sanctions and the elite's own defense strategy. So, if the sanctions' intensity is sufficiently high, the elite looks for a suitable exile opportunity and leaves as soon as such an opportunity arises, thereby turning the sanctions episode into a success. In an extension section, I consider the case of imperfect information about the quality of exile opportunities. In this modified setup, sanctions can succeed or fail. If it turns out that a suitable exile opportunity does exist, the sanctions succeed. On the other hand, if the actors learn over time that no such opportunity exists, the elite prefers to stick to its successful defense strategy indefinitely. In this case, the episode ends in failure because the sanctioning body prefers to lift the sanctions as it does not want to harm the general population without improving the prospects of democratization.

The rest of this paper is organized as follows. The next section briefly outlines the related literature. Section 3 reviews anecdotal evidence documenting how threatened regimes responded in an extremely harmful manner to the imposition of sanctions. Section 4 introduces the basic model, which is then solved in Section 5. In Section 6, I present an extension of the basic framework that entails the emergence of unsuccessful sanctions in equilibrium. Section 7 discusses further potentially interesting extensions and Section 8 concludes.

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[1] Cross-country evidence suggests that the behavior of the Haitian and Iraqi governments is quite common: Escriba-Folch and Wright (2010, Fig. 2) document that personal rulers usually respond to the imposition of economic sanctions by strongly reducing productive public spending, both as a fraction of the GDP and/as a fraction of total public spending, thereby reducing the productivity of their economies even further.

[2] A regime is classified as autocratic if the Polity score (Marshall and Jaggers, 2008) is zero or lower. Note that in 23 cases sanctions to promote regime change were imposed on fairly democratic states with a Polity score above zero. I do not look at these cases since I am interested in the impact of sanctions in autocracies.

[3] Sanctions imposed to promote goals other than "regime change and democratization" seem to be more successful on average. Again relying on the work by Hufbauer et al. (2007), the historical success rate among these remaining 124 episode is (a still modest) 36%. The observation that sanctions are frequently used despite their modest success rate is sometimes called the "Sanctions Paradox" (see Drezner, 1999).

[4] In practice, regimes have different possibilities to counter challenges, among them the use of repression. Here I abstract from these alternatives and focus on how the under-supply of public goods can be used as a defense tool. In a related paper on the resource curse, Oechslin and Rodriguez (2014), we allow the regime to invest in public goods as well as repression. It turns out that both defense tools are used in equilibrium.