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ECONOMIC SANCTIONS: DISAPPOINTING OLD WINE IN NEW BOTTLES[*]

THE SIEGE OF THE CASTLE OF MORTAGNE, NEAR BORDEAUX, IN 1377

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Abstract

Economic sanctions are back and high on the policy agenda. They are used as 'bloodless' policy instruments that replace 'hard' wars against countries that need to alter their behaviour. Sanctions come in various types and shapes. They can be introduced both by international organisations and by individual countries. The rate of their success compared to goals varies as it may be difficult to agree on the measure of success. Basically, moderate sanctions have a greater success than total ones. Still, there are suggestions for the increase of the effectiveness of sanctions: the objectives of sanctions need to be clear; target's weaknesses need to be located; what are the target's capacities to absorb hits and retaliate; sanctions need to be reviewed and fine-tuned; and there should be conditions for removing sanctions. The 2022 'total economic and financial war' against Russia ends the dollar-based globalisation. A new de-dollarized Bretton Woods version 3.0 financial system emerges as many countries throughout the word fear that they may fall under similar sanctions in the future. Sanctions may also be used as a handy tool to shift public attention from much bigger national and structural problems which the governments do not tackle decisively. Economic sanctions create immediate costs in both the target country and the sanctions-imposing countries. The same sanctions also create great new opportunities for innovations in the medium- and long-term which ought to be considered and turn into profits.

Keywords: Sanctions; Gas; Russia; Dollar; De-Globalisation; Bretton Woods; Monetary System; Rouble
JEL Classification: E42; F13; F19; F33; F42; F51; F59; N44

Riassunto

Sanzioni economiche: vino vecchio in bottiglie nuove

Le sanzioni economiche sono tornate prepotentemente a far parte dell'agenda politica. Vengono usate come strumenti 'senza spargimento di sangue' al posto delle guerre 'tradizionali' contro i paesi che devono modificare il loro comportamento. Le sanzioni hanno tipologie e forme differenti. Possono essere introdotte sia da organizzazioni internazionali che da singoli paesi. Se confrontato con gli obiettivi prefissati il tasso di successo varia, poiché potrebbe essere difficile concordare sul livello di tale successo. Le sanzioni moderate sono più efficaci delle sanzioni totali. Tuttavia vi sono indicazioni per incrementarne l'effettività: gli obiettivi devono essere chiari; i punti deboli devono essere identificati; bisogna definire le capacità di assorbimento delle

reazioni; le sanzioni devono essere riviste e affinate; e ci devono essere le condizioni per la loro rimozione. La 'guerra economica e finanziaria' del 2022 contro la Russia mette fine alla globalizzazione basata sul dollaro. Ne scaturisce un nuovo, "de-dollarizzato" sistema di Bretton Woods 3.0, poiché molti paesi temono in futuro di subire loro stessi questo tipo di sanzioni. Le sanzioni possono anche essere usate come un pratico strumento per deviare l'attenzione da problemi molto maggiori e strutturali a livello nazionale che i governi non affrontano con decisione. Le sanzioni economiche creano immediatamente costi sia nel paese colpito che in quello che le impone. Le stesse sanzioni creano anche nuove e grandi opportunità per l'innovazione nel medio e lungo termine che devono essere prese in considerazione e trasformate in profitti.

1. Introduction

Professor Emeritus Amedeo Amato was a teacher, researcher, manager and a long-time chair of *Economia Internazionale/International Economics*, the journal that has always supported the views of the advocates of free trade. Even though Professor Amato seemed to be a reticent person, this was only a cover for his enormous energy, knowledge and experience. He was always positive and he managed to encourage students, colleagues, collaborators and friends while not compromising on the highest academic standards he expected and demanded from economists. I had the privilege and advantage of benefitting from his positive energy, guidance and friendship over several decades. This article is dedicated to my memory of him.

The purpose of this article is to shed light on economic sanctions which, by definition, interfere with free trade and the flow of finance. The word sanctions passes through a period of literary hyperinflation and will dominate various discussions and policy actions in 2022 and beyond.

Economic sanctions are actions such as the restriction or refusal of trade, investment, payments, or transport by a country, group of countries or an international organization. They can include asset seizure[1] and are meant to harm, increase costs and penalise economic (and other) interests of the target country, its officials or citizens, to create pressure to force change in the economy or

[1] For instance, nationalisation of Gazprom's subsidiary in Germany in April 2022.

politics[2]. The globalised world with global value chains was supposedly expected to make such actions unlikely. However,

"Hyper-globalisation has made us so interdependent that we have become limited in our ability to slap sanctions on any country that forms a critical part of global supply chains"[3].

War is, unfortunately, a usual state of affairs as various participants find ways to compete via the use of 'muscles'[4]. Small and weak countries try to find some shelter in international law[5]. Wars are always dirty, bloody, tricky, chaotic, uncertain and expensive. They may have more or less defined goals: you fight to kill, conquer and defeat the enemy. Economic wars are messy. They include sanctions and counter-sanctions (if the target country can retaliate). Targets are often vague or incorrect and there are indiscriminate and random collateral victims, as well as various overreactions. Hence, economic sanctions are the contemporary equivalent of the sieges of castles and towns in the Middle Ages.

Economic sanctions are used as apparently 'bloodless' blunt policy instruments that replace 'hard' wars. Paper and fountain pens seemed to be tidier and smarter alternative than guns and bombs. However, the saction seen by Germany and Japan (no free access to crucial raw materials including oil) were among some of the important triggers for world wars. In those cases, sanctions added oil to the fire. Germany (1939) and Japan (1931) gunned their way to raw materials and invested in artificial materials at home.

The 'political market' for economic sanctions is becoming wider and deeper. They are used as an antidote to wars. Sanctions may be crafted to hit select targets, but their results may be different from those expected and intended[6]. A third of the world's population lived under sanctions by the 2010s[7].

[2] Felbermayr *et al.* (2021); Hufbauer and Hogan (2022); van Bergeijk (2021).
[3] Münchau (2022b).
[4] China, Russia and the United States are not among 123 members of the International Criminal Court which is intended to serve as the 'court of last resort', but they want others to comply with the law on wars.
[5] Israel, Switzerland and Singapore, for instance, also invest in the defense and military training of the population, in preparation for the worst. However, military service is also used as an additional school which gives those who 'failed' to learn something new or useful in usual education a 'second chance' in life.
[6] Primary sanctions are imposed on the target country, while secondary sanctions are aimed at countries or other entities that do not impose sanctions on the target. A question for the debate is the legality of the secondary sanctions (extraterritorial reach of law and pressure) that the sanctions source applies.
'*Secondary sanctions can make matters worse.* Trying to compel others to join a sanctions effort by threatening secondary sanctions against third parties unwilling to sanction the target can cause serious harm to a variety of U.S. foreign policy interests. This is what happened when sanctions were introduced against overseas firms who

Sanctions came in a wide range of types and shapes (light or comprehensive) and hit politicians, diplomats, business, money, investments, property, science, media, travel, communications, sports, arts, international organisations, and even a beauty competition for cats[8]. Even though Poland has so far received 4 million refugees from Ukraine, Poland continues to be under EU 'internal' sanctions (the withholding of money from the EU pandemic recovery fund) because of the 'lack of democracy' at home related to the freedom of media and independence of judges[9].

The attention in this article will be limited predominantly to economic sanctions. The political, moral, humanitarian and legal background and impact of sanctions are set aside and left for others to endlessly debate. The article is structured as follows. After this introduction I outline considerations on who may introduce economic sanctions (section 2). Section 3 deals with opportunities that create sanctions, while section 4 is devoted to the birth of the Bretton Woods system version 3.0. The further impact of sanctions is presented in section 5. Section 6 concludes discussions with a note that one should not waste crises and should find opportunities in them.

2. WHO IS ALLOWED TO INTRODUCE ECONOMIC SANCTIONS?

The top international sanctions-legislating body is the United Nations (UN) executive institution: the Security Council. Article 24 of the UN Charter states that the Security Council's primary responsibility is 'maintenance of international peace and security'. In addition, Article 24 states:

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violated the terms of U.S. legislation affecting Cuba, Iran, and Libya. This threat may have had some deterrent effect on the willingness of certain individuals to enter into proscribed business activities, but at the price of increasing anti-American sentiment, stimulating challenges within the World Trade Organization, and drawing attention away from the provocative behavior of the target governments' (Haass, 1998, p. 3; original italics).
'*Secondary sanctions are not a desirable means of bringing about multilateral support for sanctions.* Instituting sanctions against those who do not comply with the sanctions at issue is an admission of a diplomatic failure to persuade' (Haass, 1998, p. 6; original italics).
'The US is threatening to impose sanctions on buyers of Russian oil that rely on western services and fail to abide by the price cap proposed by G7 countries, as the Biden administration vows to strictly enforce the policy once it takes effect. In guidance issued on Friday, the US Treasury department said individuals making "significant purchases of oil above the price cap" as well as those who provide false information about those purchases, "may be a target for a sanctions enforcement action"' (Politi and Brower, 2022).
[7] 'A new history of sanctions has unsettling lessons for today', The Economist, 19 February 2022.
[8] Fédération Internationale Féline (FIFe), an international cat federation with members in about 40 countries, banned Russian cats from its competitions in 2022 (Hassan, 2022).
'...it was more than a year after Nazi Germany invaded much of Europe in 1940 that German assets in the United States were frozen. But when Russia attacked Ukraine in February, the West responded within days' (Pisani-Ferry, 2022).
[9] Hungary is under similar EU sanctions because of corruption and minority rights.

The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.

Hence, the primary legal global authority to impose sanctions is the UN Security Council.

Other global institutions such as the General Agreement on Tariffs and Trade (GATT) deal with economic sanctions such as restrictions in trade. Article I aims at the removal of discriminatory practices in international trade (most favoured nations clause). That is the basis for the rules-based international trading system. Article III introduces national treatment for imported goods; Article XI eliminates quantitative restrictions in trade; while Article XIII deals with non-discriminatory administration of quantitative restrictions. In this light,

"Most sanctions in the form of trade restrictions or embargoes would be *prima facie* violations of these principles, so long as the target state is also a member of the World Trade Organization (WTO) and the sanctions did not satisfy any exceptions" (Martin, 2021, p. 34).

Article XX lists general exceptions, while security exceptions include

'...in time of war or other emergency in international relations' (Article XXI – Security Exceptions).

The admonition to the global system of trade is: what if the national security argument becomes the habit and is employed for the protection of the domestic economy?

Sanctions may be introduced by regional institutions such as the European Union (EU) or international organisations in Africa or elsewhere. The Association of Southeast Asian Nations (ASEAN) has always been very hesitant and reluctant to use this policy tool. Sanctions may also be introduced by individual countries such as the United States (US) or others.

Criteria for the introduction of sanctions are rather weak and often unprincipled. There are ongoing low-level armed conflicts (China and India; Gaza) or full-blown and bloody conflicts (Yemen, Syria, Ethiopia, Iraq, Afghanistan) that 'fly' mostly under the harsh sanctions-related international radars. Or, there are hideous abuses of human rights (Saudi Arabia, Myanmar) that escape any serious debate and action[10]. Many companies do business with those countries. They argue that they do not need to take a position on affairs that take place all over the world. *Pecunia non olet* (money does not stink).

Double standards and speak from both sides of the EU mouth become a disappointing norm. For instance, the EU gave a green light in 2015 to a merger between two large German and Russian military contractors (Daimler and KAMAZ, respectively). They are in the business of producing light and heavy military vehicles. This was during the time when the EU introduced the first set of sanctions against Russia in 2014 because of the affair related to Crimea[11]. France also exported weapons to Russia after the 2014 embargo[12]. In addition, the actions of Italy were not too dissimilar. In spite of EU sanctions, the Italian company IVECO exported to Russia some 200 armoured combat vehicles resistant to the explosion of mines[13]. Ten EU countries sold military equipment to Russia in spite of sanctions[14]. Turkey occupies a third of an EU member country (Cyprus). There are no sanctions. Instead, the EU is negotiating enlargement with Turkey.

Military interventions (wars) create grounds for sanctions. Wars are often hidden under the guise of 'invasion', 'campaign', 'aggression' or 'armed conflict'. They may also be assumed to be tools for the introduction of democracy or civilisation in target countries and, in earlier times, the Christianisation of the barbarians or the Islamisation of the infidels. The Western war against Serbia and Montenegro under the label 'Merciful Angel' (1999) was undertaken without UN Security Council authorisation. Russia used this precedent for its 'special military operation against neo-Nazis' in Ukraine (2022)[15]. The only difference is that Russia had millions of her countrymen in Ukraine, while the West did not have its nationals as natives in Serbia. In addition, the Anglo-American Operation Desert Storm (1990-1991) in Iraq was based on fake news, as it was definitely proven that Iraq did not have chemical weapons, which was the stated *casus belli*.

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[10] Gambrell (2022).
Saudi Arabia has been fighting for years one of the poorest countries in the world (Yemen), and there is no discussion about sanctions at all even though there are hundreds of thousands killed civilians.
[11] Gotev (2015).
[12] Basso (2022).
[13] StopFake, 'L'Italia commercia armi con la Russia malgrado le sanzioni', 13 February 2016.
[14] Bremner (2022).
[15] 'It is natural to seek someone to blame. For many, the culprit is Nato's expansion into central and eastern Europe. A leading voice is John Mearsheimer, the distinguished "realist" scholar, who blames the US decision to open up the possibility of Nato membership to Ukraine in 2008' (Wolf, 2022a).

3. Sanctions create opportunities and force changes: lessons from history

As a latecomer in the colonial era and, later, because of the post-First World War defeat, humiliation and external sanctions, Germany had the 'incentive' (was forced by events and circumstances) to produce various chemicals as substitutes for natural inputs that were not available either in its colonies or through 'normal' trade. Self-sufficiency has often been of vital national importance. The German chemical industry was based on domestic deposits of salt and coal, as well as skills. And trouble and necessity too: there was a shortage of soap in Germany during the First World War. This gave incentives to chemical engineers to invent the first washing powders in 1916. Germany's technological success in various substitution dimensions was remarkable. The country developed world-leading chemical industries and all the related products and services that go with that, such as pumps and sophisticated precision measurement and control instruments (Jovanović, 2020, p. 225). Hence, isolation of Germany provided grounds for advances in technology, but economic 'quarantine' of Germany made the country more dangerous for others. The country transformed itself in four short years, from hyperinflation into the industrial heart of Europe. This is a clear sign that targeted economic policies have an impact on economic development – a strong one. Can any lessons be found here for the consequences of isolation in Iran, North Korea, Russia, and others?

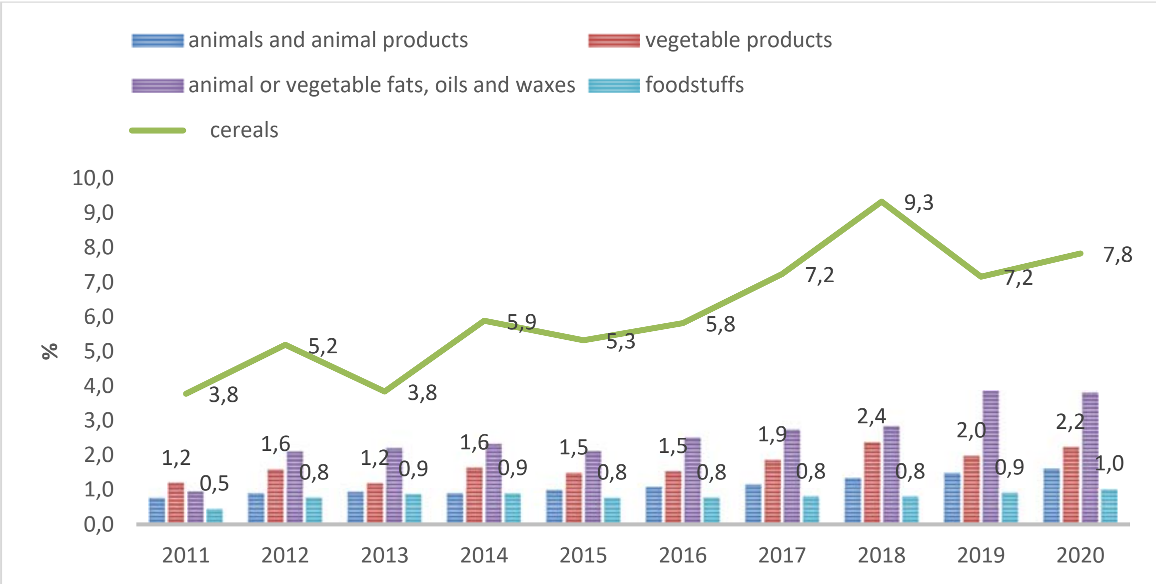
Russia has a vast territory. A part of it has a harsh climate, and it does not have enough military manpower to distribute troops throughout such a huge country. The most effective way of defending its land is through the use of super-fast long-range missiles and rockets. This defence-related need prompted Russia to invest in this technology and to excel in it.

Just as Germany (and Japan) invested in and created new artificial materials, the 2014 sanctions against Russia following the reunification with or annexation of (depending on the point of view) Crimea, triggered a long overdue reform of the Russian economy. Russia basically exported oil, gas, raw materials and military equipment before sanctions. It was simpler to export those products and import everything else, than to produce them at home. Western sanctions and Russian counter-sanctions forced Russia to replace imports, employ vast domestic resources and rely much more on domestic firms and talents. This sanctions-forced reform and economic transition turned 'sleepy' Russia from a significant global importer of food to one of the principal global exporters of grains. Russia has for years earned more from exports of food than from exports of military equipment. Gas and oil remained, of course, the first foreign currency earners[16]. To be correct, one needs to recall the Russian import-substitution policy of 2012 which got a boost and was 'facilitated' after the 2014 sanctions[17].

The 2014 Western sanctions (trade, finance, technology) and Russian counter-sanctions (no imports of food from the West) turned Russian agriculture into an attractive and profitable business. This trend continues. Russia became a net exporter of grains, potatoes and vegetable oils. There is still an unused pool of land suitable for agriculture in Russia (the existing farming land may be extended by a third). Domestic consumers changed their habits and turned towards domestic foodstuffs (chicken, potatoes, bread) that were cheaper than the previously imported ones (beef, dairy). The domestic production of copies of foreign cheeses flourished. The quality of these products slowly improved over time. Hence, the Western sanctions on Russia had unintended consequences: instead of injuring Russia, they converted Russia from an important global importer of food, to a significant global exporter of food. Russian farmers are in the best shape since the times of Tsar Nikolai II. Figure 1 provides a graphical presentation of Russia's increasing world market share in exports of basic foodstuffs.

[16] Medetsky *et al.*, (2016); Astrasheuskaya (2021).
'The INF reckons from 2014-2018, the oil price had a negative impact three times larger than the sanctions. When world oil prices recovered, so did Russian GDP' (Beattie, 2022).
[17] There was also a set of 2012 US and EU economic sanctions on Russia because of the Magnitsky case.

FIGURE 1 - *Market Share of Russia on the World Agri-Food Market (% of World Exports, 2011-2020)*[18]



Source: ITC data and own calculations.

Just as was the case with the 2014 Western sanctions on Russia, the 2022 set of sanctions would continue keep trade diverted away from Europe. Baltic and other EU states would continue to suffer from reduced or halted exports to Russia, while the other friendly former Soviet Union states, China, India, Brazil, Serbia and Turkey may profit from exports to Russia.

'Russia's war against Ukraine has resulted in the worst-ever sanctions against the country'[19].

This 2022 Western 'total economic and financial war' (sanctions) on Russia includes all trade. There are, however, a few 'minor' exceptions that relate to the EU imports of energy: gas and oil. This exclusion is not a dent in trade with Russia, but rather a major item in EU imports from Russia (at current prices roughly €800 million a day)[20]. These exceptions are understandable if one keeps in mind that the EU imports about 40 per cent of gas and 25 per cent of oil from Russia. Payments for these goods are not affected and gas flows from Russia to the EU without

[18] I am grateful to Paskal Zhelev who prepared this figure.
[19] Rapoza (2022).
[20] Chestney (2022).

interruption, even through the war-torn Ukraine[21]. The EU ban on imports of energy from Russia, although considered, was rejected as many EU countries (Austria, the Czech Republic, Germany, Hungary and Latvia) have a strong dependence on Russia and would feel bitter consequences[22]. Replacements for those energy imports are not technically possible in the short-term, or even in the medium term[23].

The seizing of *legally obtained* offshore Russian reserves to the tune of $300 billion (which makes almost a half of totally known Russian reserves) is a very serious business, but it is nothing new in the West[24]. The assets of foreign banks from countries such as Afghanistan[25], Iran, Libya, Syria or Venezuela were frozen in the past. Is this theft? Many countries in the world observe similar deposits as unsafe, and are looking for alternatives because of the possible sanctions epidemic. When a big fish is so sanctioned, what can the small ones expect? Many countries ask: who is next? Is it China and its many billionaires who keep their funds in the Western 'safe havens'?

'The more that countries fear Western sanctions tomorrow, the less willing they will be to enforce embargoes on others today'[26].

[21] The Russian closure of pipelines or a ban on export of oil and gas is not high on the agenda. Russia not only wants to keep the inflow of hard cash, but also wants to keep its long-term and hard-won respect as a highly reliable supplier of energy. All contracts for the supply of energy have always been complied with in full, for many decades. Time will tell if this remains the case.

[22] An interesting and 'colourful' thing happens when the EU requests third countries, such as Serbia, to cut all trade relations with Russia. The EU requests others to do something that the EU does not do (trade in energy) at the same time.

[23] 'The agreement will see the US provide the EU with extra gas, equivalent to around 10% of the gas it currently gets from Russia, by the end of the year' ('EU signs US gas deal to curb reliance on Russia', BBC, 25 March 2022). Still this costly alternative would not be enough to replace Russia as a supplier. It will also contribute to increased costs and accelerated inflation.

[24] 'The west, meanwhile, has taken the biggest gamble in the history of economic warfare. We have frozen the assets of the Russian central bank. Call it a special economic operation.
But we did not think this through. For a central bank to freeze the accounts of another central bank is a really big deal. Economically, what this means is that the entire transatlantic west has defaulted on our most important asset: our fiat money. Russia's central bank reserves were earnings from legitimate sales, mostly to the west. Courts can freeze assets if they are obtained illegally. But this was not the case here. Russia has violated international law by invading Ukraine. But its central bank accounts held abroad are legal' (Münchau, 2022a).

[25] 'The US has a long history of imposing sanctions that destroy economies and kill people, including children, by denying them food, medicines, and other essentials. Even now, women and children in Afghanistan are dying of hunger. The Taliban government is unable to import food, because the US is preventing the country's central bank from accessing its own dollar reserves. Moreover, US sanctions have rarely if ever succeeded in catalyzing the desired changes. Instead, they linger on, sometimes for decades, out of sheer inertia.
This may be why more countries – including China, India, Brazil, South Africa, most other developing countries, and even close US allies like Israel – are *not* imposing sanctions on Russia than are' (Ghosh, 2022, original italics).

[26] 'Are sanctions working?', The Economist, 27 August 2022.

Switzerland repatriated a lot of its gold previously held in the US. Iran has not managed to unfreeze its assets since 1979. As for the West,

"As a direct result of these decisions, we have turned the dollar and the euro, and everything that is denominated in those currencies, into de facto risky assets. The probability of default of a dollar or euro denominated asset can no longer be credibly put at zero"[27].

"Seizing assets owned by individuals, however odious they are, before they have been convicted by a court is also dubious. In some countries, such as Germany, doing so may violate the constitution"[28].

Still, some may argue that dollars may prevail, at least for some time, as reliable alternatives are not at hand. And let's not forget the public confiscation[29] of a third of lawfully obtained *private* savings deposited in banks in Cyprus in 2013, with full EU support. Are these the values that that law-abiding Western countries claim to advocate? Would banks in Singapore, Mumbai, even Shanghai or elsewhere offer attractive deposit-holding substitutes?

Seizing legally obtained public and private foreign assets is one thing, disbursing them without the consent of legal owners or a well-founded and transparent international procedure is another. One idea by certain leaders in the West is that the seized private and public Russian assets should be used to rebuild Ukraine.

"However, the dirty secret at this week's World Economic Forum meeting is that these public appeals are causing private angst for many of the Davos corporate and financial elite, from the west and its allies"[30].

Snatching foreign assets and disbursing them without a legal framework and a public procedure or consent by the owners would generate both expensive and long legal routes (law firms are delighted), and a breakdown of trust on which international economic order is based.

Sanctions on Russia and consequence such as an enormous increase in the price of energy, especially gas and oil, will definitely force changes and a search for new alternative sources of

[27] Münchau (2022a).
[28] 'Seizing the moment', The Economist, 11 June 2022, p. 11.
[29] Jewish property was confiscated by the Nazi Germany in the so called Aryanization (*Arisierung*) which started in 1933.
[30] Tett (2022).

energy[31]. The commercially viable results will not come in the near future, but the incentive (shortages and high prices) for a search for new sources and better use of the existing ones is strong and will persist into the future.

The initial (and temporary) fall of the rouble at the exchange rate market shall make the Russian exports cheaper (where it may go), increase the cost of imports and stimulate the domestic entrepreneurs to make goods and services at home. Self-sufficiency is costly, but what is the alternative for a country with enormous domestic resources and talents when trade is restricted? In addition, fishing in muddy waters is risky but can be highly profitable. The value of the Russian rouble fell because of sanctions, hence Western

"institutional investors such as JPMorgan and Goldman Sachs are actually buying up bonds from firms like Gazprom and Russian Railways"[32].

They expect that the value of such bonds would recover once the crisis is over.

Germany is a country which desperately needs a huge number of qualified immigrants. The number is projected at 400.000 persons a year[33]. An absorption of Ukrainians, educated fellow-Christian Europeans, may present far fewer problems in employment and social absorption than was the case with an overdose of migrants (even colonisers) from outside of Europe[34]. If one puts this very complicated and hard matter in simple terms, Western-leaning Ukrainian refugees find sanctuary in the EU. The Russian-leaning Ukrainians stay in Ukraine. In that situation, it would be easier and faster for Russia to create a friendlier future Ukrainian neighbour as a low-hanging fruit.

[31] Strong candidates for more research include nuclear fusion, geothermal sources, solar energy, hydrogen and the like.
[32] Zolotova (2022); Fletcher *et al.* (2022).
[33] Germany's new coalition government wants to attract 400,000 qualified workers from abroad each year to tackle both a demographic imbalance and labour shortages in key sectors that risk undermining the recovery from the coronavirus pandemic.
"The shortage of skilled workers has become so serious by now that it is dramatically slowing down our economy", ('Germany wants to attract 400,000 skilled workers from abroad each year', Reuters, 21 January 2022).
[34] In general, in the case of Syria, women and children left, while men in large numbers remained to fight, while in the case of Afghanistan, it was the men that left, while they left behind women and children in the hope that the US and other Western soldiers would protect them from the Taliban.

4. Bretton Woods version 3.0

Debt should be paid in time and in full with interest, even to enemies during war. That was the case during the Crimean War (1854-1856). During that time, Tsarist Russia was paying interest to the British and, at the same time, the Brits were paying debt to Russia. However, sanctions in finance may jeopardise this 'custom' because

"… the use of so powerful a sanction has raised fears of unintended consequences for the international financial system. If your dollar-based central bank reserves can be frozen when you need them most, then what is the use in holding them? That has in turn reignited an old debate: whether the US dollar is at risk of losing its place as the world's reserve currency. But while the freeze on Russia will spur on those who would like to supply an alternative — most notably China, via internationalisation of its currency, the renminbi — they are unlikely to supplant the dollar. The greater threat is of fragmentation in a financial system that, while imperfect, allows all to prosper together.
… If your dollars can vanish at the whim of the issuer, the logic runs, then a reserve must exist outside the dollar-based financial system"[35].

As a part of the sanctions-related package, the Bank for International Settlements (BIS), the central bank of 63 global central banks, suspended the participation of the Central Bank of Russia[36]. It is interesting to note that the same BIS did not apply the same measure against the German *Reichsbank* during the Second World War.

Sanctions and the creation of new rival currencies (monetary competition) or an increased use of the existing alternative financial assets (gold, renminbi, bitcoin, ethereum, solana, dogecoin and others known and yet unknown)[37] destabilise the established dollar-based international financial system[38]. New and rival economic and monetary blocs are emerging almost from thin

[35] Harding (2022).
[36] 'Russia's default, together with the freezing of central bank assets, is the financial market equivalent of a modern Rubicon crossing. There is no way back now. Or to put this into modern geopolitical jargon: there is no off-ramp for Russian finance.
Russia's default is not a matter of can't pay or won't pay. They have the money, and they want to pay. What happened is that western sanctions have made it impossible for western bondholders to receive payments through the banks. Joe Biden hailed Russia's default a sign that western sanctions are working. This statement is absolutely correct. If you cut off the financial flows, then surely a default is an inevitable, almost minor consequence.
The default relates to interest payments of $100m on two bonds' (EVRO Intelligence, 'A Rubicon, crossed', 28 June 2022).
[37] 'There are now some 10,000 cryptocurrencies' (Wolf, 2022c).
[38] 'In principle, one could imagine four replacements for today's globalised national currencies: private currencies (such as bitcoin); commodity money (such as gold); a global fiat currency (such as the IMF's special drawing rights); or another national currency, most obviously China's. The first is inconceivable: the market value of all cryptocurrencies is currently $2tn, a mere 16 per cent of world foreign exchange reserves, while transacting in cryptocurrencies directly

air. Instead of potentially worthless printed papers (fiat money), 'new' and real hard currencies are re-emerging. They are based on commodities: metals such as gold, energy (gas and oil) and food (grains). One may print fiat (paper) money from thin air, but one may not print oil, gas or cereals. Different currencies allow for price discrimination. Would currency competition and fragmentation of the global monetary system increase or decrease the efficiency of the world economy?

As a part of the 2022 Western sanctions package, Russia was excluded from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) for all except payments for oil and gas[39]. This weaponization of finance creates difficulties as payments are made very difficult or impossible[40]. However, the exclusion of Russia from the SWIFT system creates incentives for Russia, China and others to create new, reliable and fast cross-border payment systems, or to improve the existing ones. This would accelerate the de-dollarisation (segmentation) of international finance. Many countries worry about using the US banks because the US continues to menace them with 'democracy'. Iran has ample experience with 'alternative ways of payment' as the country managed its payments outside the SWIFT system since 2012 when the country was expelled as a sanction related to the domestic nuclear programme.

By getting out of the SWIFT, countries are free from the Western inspection. The Russian System for Transfer of Financial Messages (SPFS) and the Chinese Cross-Border Interbank Payments System (CIPS) offer alternatives and may expedite de-dollarisation of the world economy. Economic (and other) sanctions on Russia will have unplanned long-term consequences for the West. Russia, China (and, between them, the "One Belt One Road Countries"), Iran, India and countries in Africa and Latin America would get together, at least in

is impossibly cumbersome. Gold can be a reserve asset, but is hopeless in making transactions. There is also no chance of agreeing on a global currency of sufficient weight even to replace reserves, let alone be a global transactions vehicle' (Wolf, 2022b).

[39] The EU decided not to join the US in the ban on imports of Russian oil and gas. This first break in the sanctions-related unity in the West may widen in the future. As soon as sanctions bite in the EU through an increased cost of energy, inflation, reduced sales of products and unemployment, unity may weaken further. Russia cannot find alternative clients for its energy in the short term as it would take years to construct new pipelines and link them to China, India and others. Hence, Russia would shoot itself in the foot to cut exports of energy to the EU.

[40] The sanctioned Russian banks have most of their business in Russia.

certain strands of life. The more this happens, the more the US would lose its great and profitable monetary privilege – seigniorage[41].

Restriction to use – or the outright confiscation of foreign reserves or gold belonging to Afghanistan, Libya, Russia or Venezuela – is a strong wakeup call to many countries in the world to look for alternatives to SWIFT and dollar holdings[42]. If a country keeps dollars in reserves, is the dollar a safe haven? This is all pointing in the direction of a fracture in the global financial system and the diminishing role and confidence in the dollar. Michael Hudson argued that

> "Nobody thought that the postwar 1945-2020 world order would give way this fast. A truly new international economic order is emerging, although it is not yet clear just what form it will take. But the confrontation resulting from "prodding the Bear" with the U.S./NATO aggression against Russia has passed critical-mass level. It no longer is just about Ukraine. That is merely the trigger, a catalyst for driving much of the world away from the U.S./NATO orbit"[43].

The international monetary system is being overhauled approximately every 30 years or so. The Bretton Woods 'gold standard' (v. 1.0) lasted in the period 1945-1971. The US terminated convertibility of the US dollar to gold in 1971. Since then, the new 'Bretton Woods' system (v. 2.0) became the dollar standard. This system crumbled on 27 February 2022 when the G7 Foreign ministers decided in a video conference to seize the Russian (legally acquired) offshore assets (Minsky moment when everything changes). One may be witnessing the creation of version 3.0 of the international paper/electronic financial system where there are several and competing currency systems which try to dethrone the position of the US dollar and have a separate life of their own, not linked with the US. The initial problem is that the emerging system, partly based on the Chinese renminbi is not yet widely used. The volume of operations is still rather low, but it is growing. Other features of the emerging version include hoarding of raw materials and food, de-globalisation as well as certain moves in the direction of autarchy. While de-globalisation tendencies and re-shoring have been noted since 2010, the coronavirus pandemic accelerated hat trend. Many countries enjoyed the benefits of self-sufficiency in goods such as drugs,

[41] The annual US seigniorage gain may reach up to 3 per cent of US federal spending. However, being a dominant reserve currency for decades has a cost: accumulation of immense federal debt and damage to domestic manufacturing capacities.
[42] Following Western sanctions on the Russian billionaires, Russia may become a safe haven for them.
[43] Hudson (2022).

personal protective devices, respirators and other medical equipment, food and the home production of similar goods.
Russia and India are setting an alternative system of payments in roubles and rupees. Although these are first steps, they may bloom globally. For instance, oil exporting countries such as Russia or those in the Arab world may accept payments in the currencies of the oil importers such as the Chinese renminbi. The demand for the US dollar would decline and, together with it, the value and influence of the dollar and the US itself, respectively. The message may be, 'We do not want dollars (and euros), and we do not want to buy from you in the West'. The full and global US control of international finances through the dollar is slowly evaporating.

In order to prop up the rouble and keep its distance from the euros and dollars in March 2022, Russia decided to request payments for its exports of gas and oil in roubles (the same type of payments for grain exports followed). The EU imports gas from Russia to the tune of €1 billion a day. The message from Russia was clear: 'If you want our gas, buy our currency'[44]. There will be no gas for free. This had an immediate effect on the strengthening of the rouble on the exchange market. However, the leaders in the EU countries, correctly pointed out, that such a request is not acceptable as it would be a breach of the supply contracts. Russia retorted that the new reality is totally different, there is a unilateral Western economic war against Russia and the new situation demands new mechanisms. The West has first unilaterally frozen Russian deposits in dollars and euros, so the West need to pay for gas for the first time in roubles. Therefore, there exists the first time for everything. This situation is a paradise for politicians, lawyers and consultants that may frolic with ideals and pragmatism.

5. Further impact of sanctions

As a part of the sanctions package, transnational corporations such as McDonald's, Starbucks, Coke and Pepsi all halted operations in Russia. Globalists were delighted about the hit on the Russian economy, while the local anti-globalists were also delighted because Western firms that sell junk food and drinks are leaving space to the domestic producers and Yolki-Palki types of local companies. For other firms, such as big accounting firms, leaving Russia is a complex process. It may take them up to a year to close operations and leave Russia. However, if the situation changes, the departure may be undone.

[44] Chestney (2022).

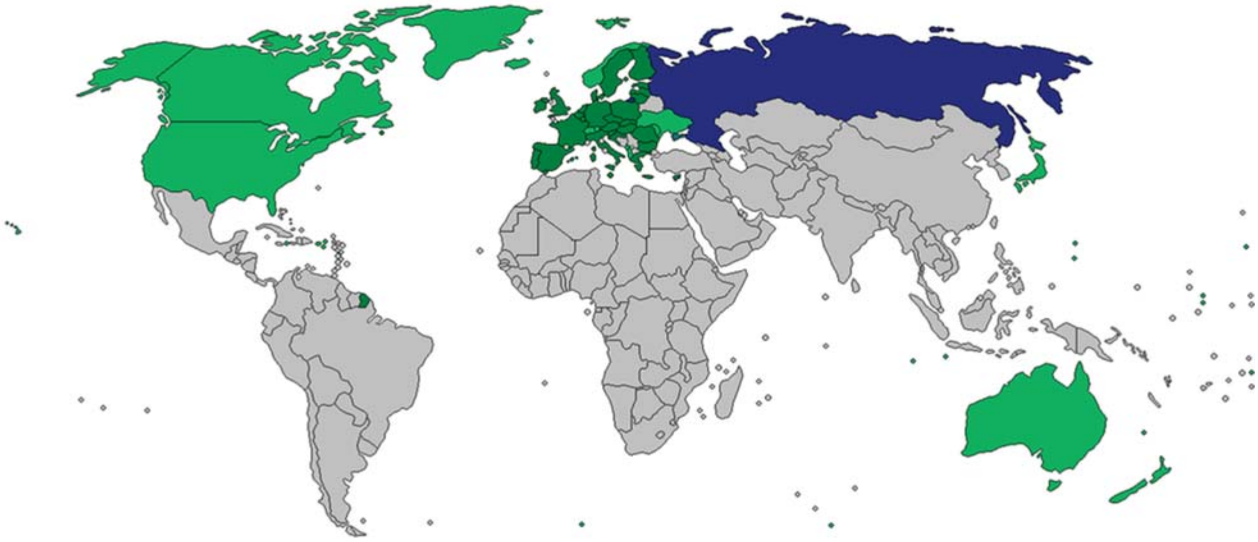
The Russians have proven their deeply developed knowledge in maths[45]. That is the reason why many global firms tap into such a pool of talent and knowledge (at a lower cost than in the West). Deutsche Bank, for instance, has a quarter of its information technology (IT) investment bank specialists in Moscow and St. Petersburg (1,500 people). The bank's data are not stored in Russia. However, if day-to-day services of those support teams in Russia are cut, things could go wrong as IT services are required in real time every day[46].

Map 1 gives a graphical presentation of countries that introduced economic sanctions against Russia in 2022. On the one hand, sanctions were imposed by the developed countries (10 per cent of the world population) of the northern hemisphere and by Australia and New Zealand, while on the other hand, Latin America, Africa and Asia stayed away from issuing sanctions[47]. Even though there is a Western-led alliance against Russia, the global coalition is not in place. Does this mean that the biggest part of the world is resisting the Western 'dictate'? 90 per cent of the global population neither respect nor fear the West. This gives an ample room for Russia to remain in international trade and finance, shift trade, and to find a way for sanctions-busting. Smuggling and evasion of controls has always been highly profitable. Sanctions in the target country mean in practice that everything is available, but at a higher price. They solidify those that have power and hurt poor, rather than the wealthy elite. Perhaps, one of the principal first effects of sanctions is alarm that they create, rather than their actual impact.

A withdrawal of the most favoured nation status in the WTO may have only a marginal or low impact on exports from Russia. Russia basically exports hydrocarbons and raw materials. Those exports normally face low or no tariffs in the importing countries. This explains why Russia did not rush to join the WTO before 2012, although others may not find this argument too convincing.

[45] Two Nobel Prizes for mathematical economics went to Wassily Leontief (in 1973) and Leonid Kantorovich (in 1975), respectively. Saint Petersburg State University is *alma mater* to both of them.
[46] Morris and Storbeck (2022).
[47] Escobar (2022).

MAP 1 - *Countries that have Applied Sanctions against Russia 2022 (green [dark] colour)*

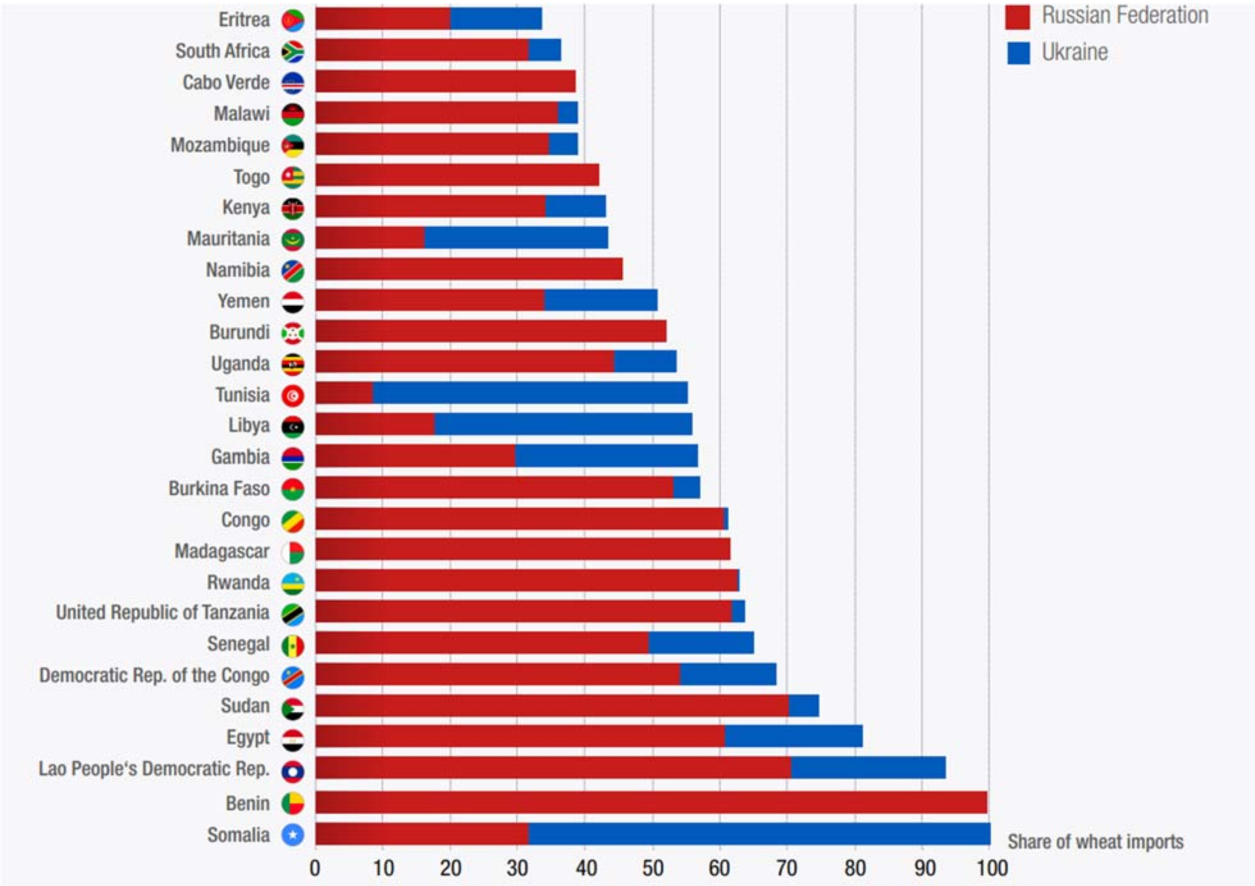


Source:
https://www.reddit.com/r/MapPorn/comments/32kn6l/countries_that_have_applied_sanctions_against/
(accessed on 21 June 2022).

One should not be under an illusion that it would be only Russia that suffers from sanctions. Sanctions cut both ways. Both industries and households are hit. The spiralling prices of grains, fertilisers, paper, cement, glass, aluminium, cobalt, copper, nickel, palladium, platinum and steel, to name just a few of those that are most exposed to an increase in the price of gas, is putting into jeopardy reasonably priced everything, from food to the protection of the environment. An increase in prices for these items would just add to the acceleration in inflation in many countries, Turkey in particular. The EU countries are not shielded from price increases in food and energy. Consumers of those basic items in the EU are also price sensitive[48]. Elsewhere, hikes in food prices may instigate new civil unrests in the Arab world and in Africa, as well as a new avalanche of migrants. Figure 2 shows a very high dependence of African countries on imports of wheat from Russia and Ukraine.

[48] The primary objective of the European Central Bank is to maintain price stability (Treaty of Lisbon, Article 127). The agreed norm is to keep annual inflation at 2 per cent. Annual inflation accelerated to 8.6 per cent (more than four times than the agreed norm) in June 2022.

FIGURE 2 - *Wheat Dependence on Russia and Ukraine in African and Least-Developed Countries*



Source: UNCTAD (2022), 'The impact on trade and development of the war in Ukraine', UNCTAD Rapid Assessment, 16 March 2022.
https://unctad.org/system/files/official-document/osginf2022d1_en.pdf (accessed on 21 June 2022).

A tsunami of sanctions just contributes to the de-globalisation tendencies in the international economy. This segmentation of markets allows for price discrimination. Whether sanctions achieve their objectives or not, is the matter for a long debate:

"Small countries could be bullied into obedience, such as on two occasions in the 1920s, when the threat of sanctions stopped skirmishes in the Balkans from escalating into wider war. Bigger powers were tougher nuts to crack. Overall, 'most economic sanctions have not worked' – the first lesson of Mr Mulder's book. Most significantly, they did not stop Germany from choosing war"[49].

[49] 'A new history of sanctions has unsettling lessons for today', The Economist, 19 February 2022; Jenkins (2021 and 2022).

… nor did they make the rulers in Cuba, Iran, North Korea, Syria or Venezuela yield to foreign pressure. In the case of Russia[50], sanctions manifestly failed. Sanctions need enforcement, suffering and patience. But if they do not change targets' behaviour, if they do not stop wars and if they stimulate criminal behaviour, what is the point in damaging yourself? Sanctions on Russia increased globally the prices of food and energy, hence those that suffer most are the poor all around the world, especially in Africa. Sanctions isolate people that mean and want change: they need contact, support, encouragement, cheer and alliance. This is the idea that John Maynard Keynes proposed in his letter to the League of Nations in 1924[51]. Travel and visa restrictions work directly against such suggestions.

What are the means to increase the effectiveness of sanctions? A possible toolbox was proposed by Nephew (2017, p. 4) and would include the following items:

- Objectives need to be clearly marked.
- Find target's weaknesses.
- What is the target's capacity to absorb the hit?
- Always fine-tune sanctions.
- State conditions for easing and removing sanctions, i.e. rehabilitation of the target.

The problem with the assessment of the impact of sanctions is that they often focus on the damage inflicted on the target, rather than on the won objectives.

"Sanctions often fail because third parties ('sanction busters') help to undermine them" (Berner *et al.*, 2022, p. 2).

And there are not only sanctions busters, but also allies that refuse to go along with sanctions. In the case of 2022 sanctions against Russia, Germany does not want to cut imports of energy from Russia; China will do what she wants; India increases trade with Russia; and Mexico is doing the same. Also, national pride in the target country is stronger than material hardship. The too-

[50] 'If the sanctions were supposed to undermine Putin's standing with the public or the oligarchs in the short term, they failed. His personal popularity soared after the invasion, and he was confident enough to inflict a whole lot more pain on the Russian public by blocking imports from the EU in retaliation…
The IMF reckons from 2014-2018, the oil price had a negative impact three times larger than the sanctions. When world oil prices recovered, so did Russian GDP' (Beattie, 2022).
[51] Mulder (2022).

material West does not comprehend how much the Russians (and others) are able, ready and willing to endure. For instance,

"Yet, despite being the target of this economic firepower from 38 sanctioning countries, Russia's economy has not collapsed, its currency has recovered (though the market for rubles is hardly normal), and the volume of imports remains high, despite the decline. The question is whether Russia will get what it needs to continue the war and keep up in cutting-edge industries. Russia has experience working around sanctions, disguising its purchases, and going through shady intermediaries. These workarounds will face major hurdles to succeed at an economywide scale. But chips are hard to control: As anyone who has seen the movie *The Departed* knows, a million dollars of military chips can easily be smuggled in a small suitcase" [52].

Even though the impact of sanctions is debatable, policy-makers persist with them along the rhetorical lines of dangerous game which says that 'we must do something' and which has a questionable chance of success:

"Biden has helpfully now explained this week not only that sanctions haven't actually deterred Moscow, but that the people of the United States ought to pay more for food in order to maintain sanctions that don't work. ... Biden has now made it clear: sanctions don't work, and they'll make you poorer. But we must keep them in place anyway"[53].

So, who cares about the suffering people in the developing countries? These sanctions may provoke new waves of hungry migrants to the West. Then, there will be a problem for everyone.

Richard Haass (1998) reviewed the US economic sanctions and argued that:

"Economic sanctions are increasingly being used to promote the full range of American foreign policy objectives. Yet all too often sanctions tum out to be little more than expressions of U.S. preferences that hurt American economic interests without changing the target's behavior for the better (p. 1). The conclusion is clear: All too often, the economic, humanitarian, and foreign policy costs of U.S. sanctions far outweigh any benefits. What, then, could and should be done?" (p. 5).

What are suggestions to increase the effectiveness of sanctions? Here come two:

[52] Chorzempa (2022).
[53] McMaken (2022).

"Many scholars and practitioners say that sanctions, particularly targeted sanctions, can be at least partly successful and should remain in the tool kits of foreign policy–makers"[54].

Anticipate that sanctions are less effective in achieving major policy objectives than modest ones. Coercive economic instruments work less often in achieving major policy objectives like military impairment or political regime change than achieving modest policy goals like releasing a political prisoner or resolving a minor trade dispute. The use of sanctions to achieve the ambitious goal of regime or leadership change might even backfire by inducing insecure leaders to become more authoritarian and use repressive means against the domestic opposition to cling to power" (Peksen, 2019, original italics).

There is a confidence in Russia that

"its budget funds are protected because existing contracts to supply oil and natural gas remain intact. The high price of energy and depreciating ruble will make these contracts even more valuable to the Russian budget. Second, Moscow expects reduced competition from multinational firms will increase profits for small and medium-sized Russian businesses. Previous sanctions had a positive impact on domestic production and helped Russia achieve self-sufficiency in a number of goods"[55].

Russia has a long history and experience of being under sanctions and sieges, such as with Leningrad (St. Petersburg) or Stalingrad (Volgograd). In fact, Russia (including the former Soviet Union) has been under perpetual sanctions for over a century (with a stint during 1990s which was economically disastrous for the country)[56]. For some of those sanctions there were no big preparations, for others there were. In any case, no matter how the conflict between Russia and Ukraine ends, sanctions on Russia shall remain for a very long time[57]. Hence, Russia is and will remain in many economic and other aspects a self-sufficient country[58].

The 2022 set of Western sanctions would, no doubt, put a certain strain on the economy and the population in general. One of the Russian 'safety valves' is the 'no-limit partnership' with China, as well as other countries that are friendly and do not apply sanctions. On the one hand, Russian endurance may last a long while. On the other, many European countries may also suffer if there is a sharp reduction in trade with Russia, especially a cut in imports of energy or an excessive rise

[54] Masters (2019).
[55] Zolotova (2022).
[56] Iran has been under almost uninterrupted sanctions for a half of a century.
[57] Foy (2022).
[58] A promising theme for a PhD thesis may be: Operation and transformation of an economy under perpetual sanctions.

in prices for oil and gas. There would be bankruptcies, (mass) unemployment, inflation, financial instability, ruptures in the supply chain, deceleration in economic growth, and poverty. In this regard, 'Russia's biggest strength is that the world is dependent on it'[59]. In addition,

> "The EU has also lacked unity: Greek shipowners are busy transporting Russian oil, the French company TotalEnergies is still drilling in Siberia, and Hungarian Prime Minister Viktor Orban openly opposes sanctions...
> Putin may lose in the longer term, but the EU may suffer defeat in the financial war before Russia loses economic war. If that were to happen, the West would have squandered its control of globalization's monetary and financial infrastructure"[60].

While the US sanctions targeted imports of the Russian energy, the EU excluded (so far) oil and gas. Russia supplies about 40 per cent of EU gas and 25 per cent of EU oil imports. The EU will try to reduce this dependence, transit to 'green energy' and move away from Russian suppliers. This is easier said than done. However, it may take years to construct new pipelines, redo the oil refineries for a different type of crude oil and build terminals that may accept (dear) liquefied natural gas (LNG) from the US, Qatar and Iran. Still, the LNG in a 'normal' situation is at least 30 to 40 per cent dearer than the pipeline gas from Russia. In abnormal times, this LNG may be four or five times more expensive. What would be the impact on industry and households of this price hike? Politicians will have a hard task to explain the difference between the EU's gas dependence on Russia and on the US.

Sanctions always have ambiguous and byzantine effects. If imports of hydrocarbons are banned from Russia, at the same time their international price will go up. Hence, inflation may be stimulated and consumers would foot the bill. Buyers may form an alliance and cap the price they pay to Russia to limit revenues. As the production cost of a barrel of oil in Russia is roughly $5[61], this cap may be as low as $10 (would Russia be 'reasonable' to sell so demanded oil at this bargain price at the time when the market price is $100?). If consumers, especially big ones such as China, India or Turkey that are outside the sanctions coalitions, purchase this oil above that cap and transport it by ship, the West may impose (secondary) sanctions on the involved shipping companies, ports, banks and insurers (Fishman and Miller, 2022).

[59] Münchau (2022a).
[60] Pisani-Ferry (2022).
[61] Foy and Sheppard (2020).

In the short-term, time is on the Russian side. Still, if the international nuclear deal with Iran is agreed, Iran with its enormous reserves of gas may be an alternative supplier of gas to Europe. Another question is how stable this source may be. Nonetheless, Russia is an important participant in the new nuclear deal with Iran. Should Russia make haste with it? Just as many in Europe feared coalitions between Germany and Russia over centuries, many worry about a potential coalition among Russia, China and Iran.

6. Conclusions

"The world is witnessing its first economic world war of the modern era. The rules are undefined, and the global economy is complex, meaning collateral damage is unavoidable and frequently unpredictable. Slowly, we are becoming aware of the repercussions the sanctions on Russia are having on the global economy"[62].

The first domino has fallen. The ripple effect on the world economy is bad. What is not known is how far and deep this effect will go.

"So far the sanctions war is not going as well as expected"[63].

"The question of economic sanctions' effectiveness is probably the hardest to answer because there is no agreed measure of success" (Skidelsky, 2021).

The 2022 economic sanctions on Russia put back the Iron Curtain. *Cui bono* ('to whom is it a benefit')? Are there beneficiaries? In any case, the track record of impact of sanctions regarding the change of behaviour of the target is rather poor or, at best, disappointing.

The times of manageable, low-cost and trouble-free sanctions is behind us. In the whole situation, there are losers in Russia, Ukraine and the rest in Europe, especially Germany (the EU economic engine)[64] and the EU countries that traded a lot with Russia and imported energy, the price of which exploded. Companies started to close down as they could not maintain profitable output with such high price of energy, commodities and other inputs. Those that continue to

[62] Colibasanu (2022).
[63] 'Are sanctions working?', The Economist, 27 August 2022.
[64] The German steel production is highly dependent on imports of gas from Russia and so is its chemical industry and heating. If imports of gas are cut, this would have effects on employment, standards of living and social cohesion. In addition, high costs of energy would translate into high prices for output. Manufacturing in Germany, Northern Italy and elsewhere in the EU would lose competitive edge. Deindustrialisation in the EU would accelerate, hence the US and China would continue to dominate.

operate would find their outputs costlier and less competitive. This strongly works in favour of the US producers of high technology goods and related services. Are there or will there be any compensations to those that suffer? Supply chains, especially from Asia, are hurt.

The US economy is challenged by inflation (quantitative easing strongly contributed), but is economically coping much better than Europe. US industries that consume gas enjoy a strong competitive advantage over counterparts in Europe and elsewhere. Hence, the US, especially arms producers, are big winners in this situation. However, the time of living with low prices is over. Europe is already bearing this burden and losing a competitive edge in its products. Developing countries throughout the world suffer because of increases in prices of basic foods, fertilisers and energy. This may instigate a new wave of refugees towards the West. Who would remain? The country which is the most formidable long-term global challenger of the US: China[65].

Once inflation – which accelerated well before the crisis in Ukraine – as well as the cost of food and energy start to bite the general population's real income[66], the question which the population must ask is: what is in this sanctions-related war, friendly fire and economic self-flagellation for us? How long may this last? This also refers to consumers in the EU. Rather than taking a 'wider view' including anger vis-à-vis Russia, the voters may look 'inside' their own nation and request local action and solutions as their purses suffer. Households in less developed EU regions (the south, Poland and the Baltics) spend a larger part of their income on food and energy. No wonder the inflationary pressure is higher in those areas than in the rest of the eurozone. This bites into the eurozone's structure and unity. How can this be squared with the much more expensive energy sources that are the alternatives to the 'classic' ones that come from Russia? Still, the costly alternative sources of energy may be acceptable as the 'basic' ones become much more expensive. New energy companies may be glad and profitable in these new conditions, but how about the consumers of this dear 'new' energy in both industries (competitiveness) and in households?

[65] In his article 'The US will be the ultimate winner of Ukraine's crisis' (Financial Times, 5 April 2022), Jahan Ganesh claims that the US advantage is 'the unpopularity of its rivals'. However, he also admits that 'Not all countries flinch at the sight: India and Israel haven't, at least not as much as Washington had hoped, and that is to cite examples among just the democracies'.

[66] Prices of foodstuffs had an increasing trend well before the energy crises of 2022. Climate change and Covid-19 pandemics contributed to increases in food prices years back.

The current situation, no matter how dangerous or grave, is an 'excellent excuse' and (temporary?) justification for shifting public attention away from other, and potentially even more alarming, costlier structural and lasting problems. This attention deficit includes:

- Dangerously raising inequality among classes in the society (the US and elsewhere; accelerated decline in the share of the middle class in the society; diminishing portion of income for labour; and falling living standards)
- Behaviour of corporate behemoths (finance and manufacturing) which act as if they are beyond the law and which created a significant threat to the democratic organisation of the society
- The impact of new technology on (lower) employment in manufacturing
- Global warming
- Pollution
- Aging population and problems in demography
- Public and private debt
- Degrading defeat and humiliating retreat of the US-led coalition from Afghanistan (this enormous military machine and equipment industry seeks and finds new engagements)
- Increased expenditure for defence (and the apparent giga purchase of new US hardware and related services – how delighted is France and for that matter Poland to see the German turbo-fast heavy-hardware armament? These two countries know well how this may end up)[67]
- Accelerating inflation[68] which devours both wages, pensions and savings (and resolves structural imbalances in a cruel way)
- Gross corruption
- Genetically modified organisms and the damage that they can create to the future generations and the environment.

Necessity is the mother of inventions. New materials, new sources of energy, new ways of payment and store of value may emerge from the crisis. None the less, we need to keep in mind that

[67] The Spanish minister Ione Belarra said, 'Spain needs guaranteed incomes, more doctors, more teachers, not more arms' (Kuper, 2022).
[68] Inflation has been looming for years. The sanctions-related spurt in prices for energy, fertilisers and food was just a trigger and a handy scapegoat for politicians.

"There is, after all, another peaceful model for bringing about improved international and domestic behavior. Montesquieu, Adam Smith, Richard Cobden, and many others argued that the exchange of goods, people, and ideas has pacifying effects. Sanctions work directly against this. When proponents of these punitive measures claim that commerce is possible only between civilized people, they ignore the civilizing effect of commerce itself" (Skidelsky, 2021).

Economic sanctions create immediate costs on both the target country and the sanctions imposing countries, the same sanctions also create great new opportunities for innovations in the medium- and long-term which ought to be considered and turned into profits. A new decentralised and de-globalised international financial system is emerging.

'Never let a good crisis go to waste'.
Winston Churchill

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