



The Daily Dish

Russian Energy Sanctions

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With some fanfare, President Biden yesterday announced a U.S. boycott of Russian exports of energy products – oil, natural gas, and coal. The administration got pushed to this position by a bipartisan threat that Congress would pass legislation to do so, a pattern similar to the Europeans pushing the administration to ban Russia from the [SWIFT](#) international financial transactions network. This raises three main questions.

How does this impact the effectiveness of the sanctions? There is a sizable and contentious literature about the efficacy of economic sanctions. (See, for example, [Huffbauer](#) and his coauthors for the case in favor of sanctions, and [Pape](#) for a critique.) One finding of that literature is that if one wants an ambitious success, then the cost to Russia of the sanctions must be correspondingly high and *vice versa*. Moreover, since deferred costs are less important than immediate ones, it makes sense to avoid incremental strategies that “turn up the heat.” The good news is that, as noted above, the administration has been forced to be more aggressive immediately. The bad news is that the United States is no longer moving in lockstep with European allies, which to date appeared to be a priority for the administration.

How does this impact Russia? The United States does not have sizable direct trade in energy products with Russia, so the cutoff of purchases does not dramatically change the costs to the Russian economy. The fact that the U.K. will phase out oil purchases by the end of 2022 adds to the impact, but not dramatically. In the end, the impact of sanctions on Russia hinges on the role of China and India in enforcing a sanctions regime; that remains to be seen.

How does this impact the United States? This will add modestly to the global prices of oil and gas, exacerbating the inflation pressures that have already focused the attention of consumers. And it will further complicate the job of the Fed in determining the pace and size of efforts to remove monetary stimulus. But it is unlikely to be the cause of a recession.

For perspective, in June 2008, oil prices were roughly \$140 a barrel, the equivalent of about \$180 today. Similarly, gasoline was \$4.10 a gallon, which would be \$5.25 today. So, while it is entirely possible that oil prices may rise by \$50 or so a barrel, this would dent, but not break, the 2022 growth path. The economy entered the year with a lot of inflation and momentum; it is unlikely to turn on a dime. A bigger wildcard than energy costs are the profile of Fed tightening over the next 12 months.

The bottom line is that *in isolation* the new step of boycotting Russian energy is a mixed blessing for the economic sanctions regime, more symbolic than real for Russia, and a noticeable but not devastating headwind for the United States.