

Who Bears the Burden? The Effects of Sanctions on Inequality

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Abstract:

In recent years, the use of sanctions as diplomatic instruments has risen sharply, while their humanitarian and distributive consequences remain poorly understood. Existing evidence suggests that sanctions often exacerbate poverty, child mortality, and other social hardships in targeted countries, yet rarely achieve meaningful policy change. This raises the question whether such effects may stem from sanctions disproportionately impacting population groups of low socio-economic stand, thereby increasing inequality. To address this question, the study conducts a cross-country analysis of the relationship between sanctions and inequality. Using the SWIID data and applying entropy matching to construct comparable treatment and control groups, the analysis focuses on trade, financial, and aid-sanctions imposed by the EU, US, and UN between 1973 and 2017 lasting more than two years. The results indicate that sanctions are associated with a reduction in inequality growth suggesting that the economic burden may be borne more heavily by higher-income groups during the first three years following their implementation. These findings challenge the common assumption that sanctions are blunt instruments, disproportionately hurting poor sub-populations. Causal mediation analysis further indicates however, that these effects on inequality barely happen through expected and intended reduction of trade openness or FDI per capita and only very little through ODA per capita reductions. This highlights the necessity for future research on other mechanisms at place. Furthermore, the results indicate differences in both the magnitude and statistical significance of the effects across country income levels. The effects are strongest for middle-income countries, whereas for low-income countries they may potentially even reverse in sign.

Keywords:

International Sanctions Inequality, Causal Mediation Analysis.

JEL Classification:

D31 F35 F51.