In the Long-Run U.S. Financial Sanctions will Backfire
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Political and business elites in the U.S. often use financial sanctions as a weapon to destroy economies. However, to avoid potential U.S. sanctions, countries are moving away from the U.S. dollar as a global currency and slowly reducing foreign demand for U.S. dollars, which will be disastrous for the U.S. economy.

Financial sanctions, whether applied domestically or to foreign governments, restrict the flow of money to and from sanctioned areas (targets). They are costly to the targets, and in the long-run rational targets will find ways to avoid the imposed costs.

Domestically, redlining by private banks limits the influx of money to certain targeted communities, such as the Appalachian region and Central Cities, leading to high poverty rates. Internationally, sanctions limit the targets' ability to conduct financial transactions with the rest of the world, which also leads to high poverty rates.

Within the U.S., private banks, as well as political elites in city, county, state, and federal governments, often conspire to limit credit to specific communities. The Editorial Board of the New York Times noted that early federal programs that promoted homeownership and financial well-being shut out African-Americans, including the all-important New Deal mortgage insurance system that generated the mid-20th-century homeownership boom.

Domestic and international financial sanctions negatively affect the living standards of residents in targeted areas. The U.S., sanctioning country (sender), uses economic sanctions to destabilize foreign governments. Financial sanctions often create unbearable conditions for the target population, with the intent to change the government of the targeted countries, whether democratically elected or not. When it benefits the U.S., it supports undemocratic governments favored by the political elites; Davies listed 35 countries where the U.S. supported fascists, drug lords, and terrorists.

Political elites in the U.S. government use statutes and Executive Orders to impose financial sanctions on targets, such as Iran, North Korea, Venezuela, and others. Sanctions deprive the target of food, medicine, technology, and so on. Ironically, after a few years of sanctions, the sender's narrative blames the targeted government for scarcities and turmoil created by the financial sanctions.

The U.S. President, Congress, and business elites contribute to the imposition of financial sanctions on targets that they perceive as not acting in their interests or whose resources will benefit U.S. business elites, such as Venezuela's crude oil reserve. John Bolton publicly affirmed, "It will make a big difference to the United States economically if we could have American oil companies invest in and produce the oil capabilities in Venezuela."

The Axis of Logic indicated that "The United States Treasury Department announced Friday that non-U.S. companies that buy Venezuelan oil through the U.S. financial system or U.S. commodity brokers would not be allowed to carry out any purchase after April 28." Kozhanov noted that the U.S. attempted to exercise influence on the Islamic Republic of Iran by using punitive measures and incentives to limit the ability of other countries to cooperate with Iran.

Thus, the U.S. political elites coerce third countries to block financial transfers with the target. This week, The Financial Times reported that "The U.S. vice-president warned E.U. countries to end their efforts to defy U.S. sanctions on Iran and urged them to follow Washington in pulling out of the international nuclear deal the Tehran."

The use of punitive financial sanctions by U.S. political elites is not a good policy and will prove to be the downfall of U.S. petrodollar global dominance. As noted by Crooke, many foreign targets are devising non-dollar trading to nullify U.S sanctions. Procinctu points to Russia, China, and some Gulf States that are on the verge of not recognizing the status of the petrodollar. Not recognizing the petrodollar as the global reserve currency would be catastrophic for the U.S, which is why it is unwise to use the U.S. financial system as a punitive tool. The petrodollar is a 1970s agreement between the U.S. and Saudi Arabia to trade crude oil in only U.S. dollars.

Peter Stöferle noted that the beginning or the ending of a global reserve currency is not an exact science, no press releases are announcing it, and neither are there big international conferences that end with the signing of treaties and a photoshoot.

In 2011, Muammar Gaddafi attempted to use gold as a medium of exchange for crude oil purchases, an alternative currency that would compete with the Dollar or the Euro. In 2018, Venezuela's Maduro, whose country has the largest oil reserve in the world, announced the launch of PetroGold. The reaction of the West to Libya and Venezuela's attempts to use gold to replace the petrodollar as an exchange currency followed a similar pattern.

The primary responsibility for implementing U.S. financial sanctions resides with the Office of Foreign Assets Control (OFAC), the Department of State, and other federal agencies. OFAC maintains the Special Designated Nationals and Blocked Persons list (SDN).

The role of private financial institutions, particularly private banks, is essential in the process of targeting domestic and international communities for restricting the flow of money to and from targeted communities.

The international financial system uses wire transfer for payments, a transfer in which the originator notifies its bank to transfer funds to a recipient's account. The twelve Federal Reserve Banks of the U.S. own the Fedwire, which facilitates communications and settlements with U.S. banks.

The U.S. requires private financial entities, foreign and domestic, to monitor and self-report any transaction violations for the U.S. in which an SDN has an interest. The financial entity must block the transaction and file a report within ten days to OFAC.

Jonathan Marters noted that sanctions are a defining feature of the Western response to adversarial geopolitical challenges. The U.S. often leads in the application of sanctions with former Western colonial countries pressured to follow its lead. The U.S. applied sanctions to Cuba, North Korea, Russia, Iran, Venezuela, and others; sanctions, however, seldom change the target's behaviors. Nonetheless, the U.S. political elites and supporters believe that they are effective.

Sanctions are brutal tools used to starve and create factional divisions in the targets' communities; they lead to impoverishment, fractured societies, high crime and migration rates, civil wars, and even U.S invasions. However, sanctions imposed on targets often go undetected by the public in the senders' countries, and the outcomes that they hear are the narratives of the political elites that imposed the sanctions.

The narratives are often about how the leaders in the targeted areas are mismanaging their communities and should be replaced with the targeter's handpicked local politicians. Some examples are Iran's Mosaddegh, Haiti's Aristide, which are typical examples of leaders that the U.S. replaced with their local politician, and now Venezuela's Maduro appears to be next. Admittedly, it is difficult to argue that Aristide and Maduro are great leaders. Likewise, we can't say that Trump is a great leader either or that they were no anomalies in the U.S. 2016 election.

Therefore, using the U.S. financial system, and hence the petrodollar, as a punitive tool is causing countries to trade in non-dollar. A rise in non-dollar international trading is a means to avoid potential and actual U.S. financial sanctions, and in the long-run, it will lower the demand and value of the U.S. dollar, and cause a selloff of the dollar.

Constable does not believe that the yuan will replace the dollar soon. Nonetheless, Imahashi indicated that "Emerging countries in Asia and authoritarian governments that are at loggerheads with the U.S. are stocking up on gold to reduce their dependence on the dollar." Accordingly, they are selling dollars for gold to reduce their vulnerability to Trump's unpredictable diplomatic actions.

Nelson claimed that even Europe's central bank is starting to replace dollar reserves with yuan. For Bengali, "Foreign policy aside, this has greater implications for the dollar than meets the eye. In the big-picture view, the world is moving away from the dollar." Harvey noted that "if the U.S. dollar loses its world reserve currency status, the average citizen of the U.S. will take a huge hit to their standard of living."

Let's preserve the dollar as a global currency by not using it as a punitive tool.