



MEMORANDUM

TO: Federal Financial Analytics Clients
FROM: Karen Petrou
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Late last week, Treasury issued a super-perky [blog post](#) asserting that U.S.-led sanctions will soon subdue Russia's military might. However, judging by the data Treasury rallies, saying sanctions subdued Russia's war-making capabilities is akin to a Yorkie's confidence that it can tackle a Rottweiler. The terrier can indeed get in a few painful nips, but bring the big dog down? It could if sanctions worked. But, they don't. The more Treasury persuades itself they do, the faster U.S. might dissipates thanks to resolute attacks and internal insouciance.

Why has U.S. soft power gone so squishy? Some problems are of the U.S.'s making, some not, but all pose a significant challenge as the world has again become a very dangerous place for a faltering super-power that not-unreasonably still thinks of itself as the bastion of democracy.

As I noted in a talk [last week](#), one foundation of American might has long been the "Almighty dollar." As a lot of data make clear, the dollar remains potent, but it's no longer decisive. Nations come and go as reserve-currency issuers and the U.S. is going because, as I detail, it's squandered the payment-system, financial-market efficacy, sovereign-obligation impregnability, and unquestioned rule-of-law pillars on which reserve-currency status rests. Enemies wielding currencies they seek to turn into global go-tos combined with the anonymity and evasion power of digital assets don't help, but the U.S. seems to be doing its damndest to speed the dollar's demise not by express action, but rather by unfounded assumptions that, because the U.S. had unquestioned soft power, it has it still.

And, even if the dollar's reserve-currency status were still all it's cracked up to be, alliances of like-minded allies are required to bolster U.S. soft power just as foreign-policy alliances such as NATO do the same when it comes to weaponry and military might. Hard-power cooperation is vital in many theaters and it's still more critical for soft power, depending as it does on fluid trade and financial flows where the U.S. often plays second fiddle.

The U.S. knows this and thus pressed all of its allies to join U.S. sanctions. And so most did at the outset of anti-Russia sanctions. That worked for a while, but even the "special alliance" with the U.K. has become a farce. As Bloomberg [reported](#) late last week, the U.K. may have modelled its sanctions on those the U.S. sought, but its enforcement is lax to laughable.

Further, non-aligned powers and many smaller nations were unwilling to agree to sanctions and have the power to ease Russia's pain no matter how tough sanctions became as Ukraine's plight grew ever worse. This forced the G-7 to resort to another tool, the oil-price cap. But as is also [clear](#), "dark fleets" roam the seas carrying Russian oil to all who want it at prices the Russians still have the power to extract thanks to sanctions evasion, friendly sovereign currencies, and cryptoassets.

What of U.S. enemies, most notably China? Although the renminbi is nothing to sneeze at in terms of global payments, it's also increasingly nothing to sneeze at [across the globe](#) thanks to the government's concerted campaign to use its trade and emerging-nation debt clout to promote its economic power.

The dollar might, just might be strong enough to choke China off if it were to invade Taiwan or cross another bright line, but even many of the EU nations nominally siding with the U.S. when it comes to Russia are more than non-committal when it comes to China. Between them and the Global South, the worst that might happen to China if it provokes sweeping U.S. sanctions is fewer low-price sweatshirts on Amazon for U.S. shoppers.

To be sure, the U.S. is no Yorkie when it comes to dealing with big dogs. The problem is not so much that the U.S. lacks soft power as that it hasn't as much soft power as it thinks and thus expects too much of the dollar's power and resulting sanctions omnipotence. Confident it reigns supreme, the U.S. also wields sanctions with so much caution as to give all too much opportunity to those for whom sanctions are only inconvenient and those flat-out opposed to them. The leakier sanctions are, the more likely it is that their soft-power value simply sinks out of sight.

In the run-up to the Second World War, U.S. business and financial interests persuaded the Roosevelt Administration to do little to stop German and Japanese rearmament. Sanctions were scant until they were way too late. A time when the billions of dollars of direct funding that form another essential U.S. soft-power weapon are misfiring thanks to political dysfunction is one when other tools are still more critical and failing to wield them effectively is still more dangerous.