



By: *Simon Johnson*

Is America actually subject to Iran's sanctions?



The purpose of international sanctions is to impose economic pain on an adversary. If you are the United States, you do this by seizing assets or prohibiting transactions with particular countries, often targeting specific people or entities close to the targeted regime.

Given the global reach of the dollar system, US sanctions are generally feared far and wide. But now the US is on the receiving end.

In effect, by choking off the Strait of Hormuz to oil flowing from pro-US **Persian Gulf countries**, while still shipping a substantial amount of its own oil to China, Iran has slapped painful sanctions on the US.

If these de facto Iranian sanctions last, they will impose first-order economic costs on many Americans, including supporters of President Donald Trump, implying a major impact on the midterm elections in November.

The US does not usually buy much oil from Persian Gulf countries. Most of the region's output moves by tanker to Asia and, since Russia's full-scale invasion of Ukraine, to Europe.

But the world oil market is so interconnected that changes in the price of Brent crude immediately affect energy prices everywhere, including for retail gasoline and diesel in every part of North America.

Higher fuel prices

According to the US Energy Information Administration, the price of on-highway diesel has risen by **more than a dollar** per gallon, to over five dollars, since February 28, when the US-Israeli strikes on Iran began.

Higher fuel prices have a direct impact on everyone who drives a vehicle – including many strong supporters of Trump who, **according to market research**, are more likely to drive full-size pickups.

Higher prices will lower living standards more broadly, because transport costs strongly influence the price of food and all goods

Higher diesel and fertilizer prices will **squeeze farmers**. Jet fuel prices are also up sharply in all markets, with immediate implications for the price of air travel (and further negative effects on transportation costs).

And these higher prices will lower living standards more broadly, because transport costs strongly influence the price of food and all goods.

The financial market knock-on effects

And then there are the financial market knock-on effects. How can the Federal Reserve possibly cut interest rates with Brent crude at or above \$100 per barrel?

If the Federal Open Market Committee fails to resist these intense inflationary pressures, parallels will increasingly be drawn with Arthur Burns – installed as Fed chair by Richard Nixon in 1970, with rather **disastrous consequences** for inflation (and stagnation) during that decade.

There are always policy options, and Trump is now signaling that he would like to de-escalate attacks on energy-related infrastructure.

To keep its de facto sanctions in place, all Iran needs to do is maintain the credibility of its threat against tankers in the Strait of Hormuz

But to keep its de facto sanctions in place, all Iran needs to do is maintain the credibility of its threat against tankers in the Strait of Hormuz.

Trump, of course, could declare victory and stop US missile attacks. But will this either stop the Israel-Iran conflict or make the Persian Gulf safe for shipping again?

Who can withstand the economic damage for longer?

In addition to its own production capabilities, Iran can draw on strong support from Russia.

Press reports indicate that **Russia is encouraging Iran** to keep up its attacks – including by providing targeting data to strike US assets and supporting the drone effort in various ways.

Russia wants to **undermine the US and its allies**, and higher oil prices are a windfall for the Kremlin.

As the conflict with Iran has escalated, the US has relaxed sanctions against Russian oil. The Russians likely expect further relaxation if the conflict continues.

Who can withstand the economic damage for longer – the harshly repressive Islamic Republic or the US with its electoral democracy?

Robin J. Brooks of the Brookings Institution is proposing that the US impose an embargo on Iranian oil, and this is feasible given that the administration is now willing to interdict shadow-fleet ships (as it showed in Venezuela).

This idea deserves serious consideration, particularly as it would disrupt the flow of oil to China, giving the Chinese leadership a direct stake in diplomatic engagement. But China has stored a lot of oil (**around 100 days of imports**).

Who can withstand the economic damage for longer – the harshly repressive Islamic Republic or the US with its electoral democracy?

All meaningful countermeasures take time

Other ideas are also swirling, and everything is presumably on the table at the White House.

Newt Gingrich, a former speaker of the US House of Representatives, wants to **dig a new canal** with the help of a “dozen thermonuclear detonations.”

Even if such a bizarre construction method were possible and desirable (it recalls Nikita Khrushchev’s crazy plan to reverse the flow of the Volga River using “Peaceful Nuclear Explosions”), a canal to circumvent the Strait of Hormuz would itself become a target.



With economic pain in the US growing and midterm elections looming, the Islamic Republic’s leaders probably believe that time is on their side - Donald Trump

Iranian missiles can reach at least as far as Saudi Arabia’s facilities on the Red Sea.

Bringing Ukrainian anti-drone capabilities into the mix to reopen the Strait makes sense, but Russia will keep the best Ukrainian experts busy in Ukraine.

More oil revenue means Russia can (and will) build and launch more drones and missiles against Ukraine.

Scaling up US (and NATO) anti-drone capabilities is also appealing, and this is an issue that MIT’s Priority Technology Group has been working on for several years.

The relevant technology can be developed, including with Ukrainian input, and the required scale-up would be good for

manufacturing jobs and supply chains in the US, Europe, and other friendly countries.

But all meaningful countermeasures take time. And with economic pain in the US growing and midterm elections looming, the Islamic Republic's leaders probably believe that time is on their side.

Simon Johnson, a 2024 Nobel laureate in economics and a former chief economist at the International Monetary Fund, is a professor at the MIT Sloan School of Management, Co-Director of MIT's Stone Center for Inequality and Shaping the Future of Work initiative, Co-Chair of the CFA Institute Systemic Risk Council, and an AI Ambassador for the UK.