

CATO Speeches

Defending Liberty in a Global Economy

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Richard B. Cheney

I want to thank Cato for hosting this conference today. I think it's extremely timely and exactly the kind of thing that your Institute's very good at. I appreciate being asked to participate.

I want to speak to you today from two perspectives. First, from the standpoint of somebody who has been heavily involved in government, especially in broad issues concerning U.S. strategic and national interests around the globe. But I would also like to talk briefly from the point of view of someone who is currently serving as the CEO of a major corporation. First, let me take just about two minutes and give you a quick commercial on Halliburton so you'll understand the kind of company we are and why we're interested in these issues.

Halliburton was founded some 70 years ago in Duncan, Oklahoma, by one man and a truck, cementing oil wells and casings inside oil wells. Over the years we developed the capacity to do everything downhole that is necessary to produce oil and gas: we drill wells, we do completions on wells, we cement, we stimulate, and we undertake a host of other activities involved in the production of oil and gas. We also own Brown & Root Engineering, a company that began about 70 years ago with two brothers with a road grader in Austin, Texas. Brown & Root is in the business of building off-shore platforms, undersea pipelines, refineries, and other down-stream facilities. Brown & Root is also heavily involved in the operations and maintenance business. They currently have the logistics contract for the U.S. Army in Bosnia under which they build and operate all the camps for the U.S. Army deployed there. As a measure of the company's diversity, I should also mention that we are building the new baseball stadium in Houston.

Halliburton employs about 70,000 people. We are currently a Fortune 200 company, but are in the process of merging with Dresser Industries. Once we do that, part of Halliburton will not only include Brown & Root, but also M. W. Kellogg, one of the world's premiere engineering and design companies. In addition, Dresser also is heavily involved in manufacturing pumps, compressors, and all kinds of complex mechanical equipment that services the energy industry.

Overall, once we complete the merger, we will have about 100,000 employees. Our sales in 1999 should put us among the top 100 companies in America in terms of revenue. We'll be the largest private employer in Texas and operate in over 130 countries all over the globe. About 70 to 75 percent of our business is energy related, serving customers like Unocal, Exxon, Shell, Chevron, and many other major oil companies around the world. As a result, we oftentimes find ourselves operating in some very difficult places. The good Lord didn't see fit to put oil and gas only where there are democratically elected regimes friendly to the United States. Occasionally we have to operate in places where, all things considered, one would not normally choose to go. But, we go where the business is. So, what happens with respect to U.S. commercial policy, how we conduct ourselves as a nation, the kinds of rules and regulations that American firms are expected to abide by and operate under, and how all of that affects our ability to compete overseas is of considerable interest to those of us at Haliburton and Dresser. Obviously, such matters are not only important to our employees, but to our shareholders, and our customers as well.

One of the things that I think is important for us to focus on for just a minute concerns the phenomenal changes that have occurred in the world in the last few years. When I was Secretary of Defense, I spent part of my time targeting certain pieces of real estate inside what was then the Soviet Union. In early June (of 1998), I was salmon fishing on the Kola Peninsula up near Murmansk and Archangel where the Soviet northern fleet has been based for years. In an astonishingly short period of time, the world has been so transformed that now a former U.S. secretary of Defense is perfectly free to hop on an airplane, fly over to the former Soviet Union, and spend a week salmon fishing. It is amazing when you think about that transition.

Another dramatic sign of the times: our engineering company, Brown & Root, has a contract with the U.S. Department of Defense to destroy SS18 missile silos in Kazakhstan. There was a time, not long ago, when we were afraid that the only way those missiles would be destroyed was with other missiles. Now we are cutting them up with acetylene torches! That sort of activity was incomprehensible just a few short years ago when I was still with the government.

There have obviously been phenomenal changes, not only in the political and military arena, but in the economic as well. I think much of the explanation for such a remarkable transformation all over the globe can be attributed to economic competition and to the power of the ideas and the concepts that are embodied in the U.S. economy. The inability of the old centrally-planned states such as the Soviet Union to compete economically, to provide the necessary resources for national security and to meet the basic demands of its citizens ultimately drove them to the realization that they must fundamentally change their systems if they were going to survive.

I believe that economic forces have driven much of the change in the last 20 years, and I would be prepared to argue that, in many cases, that economic progress has been a prerequisite to political change. The power of ideas, concepts of freedom and liberty and of how best to organize economic activity, have been an essential, positive ingredient in the developments in the last part of the 20th century. At the heart of that process has been the U.S. business community. Our capital, our technology, our entrepreneurship has been a vital part of those forces that have, in fact, transformed the world. Our economic capabilities need to be viewed, I believe,

as a strategic asset in a world that is increasingly focused on economic growth and the development of market economies.

I think it is a false dichotomy to be told that we have to choose between "commercial" interests and other interests that the United States might have in a particular country or region around the world. Oftentimes the absolute best way to advance human rights and the cause of freedom or the development of democratic institutions is through the active involvement of American businesses. Investment and trade can oftentimes do more to open up a society and to create opportunity for a society's citizens than reams of diplomatic cables from our State Department.

I think it's important for us to look on U.S. businesses as a valuable national asset, not just as an activity we tolerate, or a practice that we do not want to get too close to because it involves money. Far better for us to understand that the drive of American firms to be involved in and shape and direct the global economy is a strategic asset that serves the national interest of the United States.

One of the problems we face, I think, is that we have far too many policymakers who lack any real understanding of what the modern world economy is all about or how it actually functions. I am concerned that we have a lot of policymakers who may be wise in the ways of Washington, but are, frankly, naive about the way the world economy works. I think they tend to still view international commerce as a process by which nations trade a few agricultural commodities and some manufactured goods and that is it. They believe that commerce is easily controlled and regulated by national governments, and that, if necessary, the United States can isolate itself from the rest of the world's economy and remain prosperous. That is what I call the "Pat Buchanan view" of international economics. Please understand: I like Pat Buchanan. Pat is a friend of mine. I thought Pat was a great speechwriter when he worked for Richard Nixon, and he's a fine TV commentator, but he is dangerous if he ever gets control of U.S. economic policy.

National boundaries simply do not mean what they used to mean economically. The vast flows of capital and technology, the internet, the tremendous growth in services moving back and forth across international borders and between centers of economic opportunity and activity around the globe, have dramatically transformed what we think of as the world's economy. We need enlightened political leadership that understands and comprehends the complexities of the world economy. All too often these days that leadership appears to be lacking.

I want to spend a few minutes this afternoon on my favorite hobbyhorse, the question of unilateral economic sanctions. Let me emphasize at the outset that I am not automatically, absolutely opposed to all sanctions. I think there are occasions when an appropriate policy response by the United States is to impose sanctions on some foreign government. But those occasions are relatively few. I think in most cases they are appropriate only where we can think in terms of multilateral sanctions, when there is something of an international consensus willing to follow U.S. leadership. Under those circumstances it may make sense to pursue a sanctions policy. I would cite, for example, what the international community has done with respect to Iraq in the period since the Gulf War as an appropriate use of multilateral economic sanctions.

But my concern today is primarily with *unilateral* economic sanctions imposed by the United States. I would begin by arguing that they almost never work. It is very hard to find specific examples where they actually achieve a policy objective. Unfortunately, as has been pointed out repeatedly in recent public debate, our government has become "sanctions happy." I don't mean to be partisan here. I think there's plenty of blame to go around for both parties with respect to this question of the use of unilateral sanctions. But let me cite a couple of facts from a recent issue of *US News & World Report*. In the last 80 years, the United States has imposed economic sanctions some 120 times. More than half of those 120 instances have occurred in the last five years, since the Clinton administration came to power. I don't know that there's any connection, but one cannot deny that, during that period, we've been far quicker to move in the direction of sanctions than ever before.

Currently, again according to *U.S. News*, we've got some 70 countries around the world affected by sanctions of one kind or another imposed by the United States. Those 70 countries are home to almost two-thirds of the world's population. Now, again, I might be willing to listen to arguments for the imposition of all those unilateral economic sanctions if somebody can produce significant evidence that they work. At a minimum, I would think such evidence ought to illustrate that we achieved the desired change that was used as the rationale when we adopted these sanctions in the first place. Typically, some government is pursuing a policy we don't like or we disagree with and we impose sanctions with the expectation that they will then understand we don't like that particular policy and they'll change it. As a practical matter, it's almost impossible to find examples where in fact that has happened.

When we pursue those courses of action, the United States ends up in a position of adopting and advocating a policy that is almost guaranteed to be ineffective. It makes one wonder why the United States, on purpose, would want to consistently pursue policies that don't work. But that is what we do every time we fall back on the use of unilateral economic sanctions. They don't produce the desired result, in part because most of the time such policies are motivated primarily by domestic political considerations, by a desire to respond to pressure from some group or other here at home. They are rarely adopted with respect to whether or not they make sense in terms of overall U.S. foreign policy goals and objectives.

When I went to work for President Ford back in the summer of 1974, our first foreign policy crisis had to do with a dust up between the Greeks and the Turks, who had gone to war over the fate of Cyprus. The response of the Congress at that point was to impose an arms embargo on Turkey. Now that was particularly interesting because Turkey was a NATO ally. We had solemn treaty obligations with the Turks. To be sure, we had almost exactly the same kind of relationship with the Greeks. They were also NATO allies. But we placed sanctions on Turkey and not on Greece. Why? It was not because it made sense from the standpoint of what was going on in Cyprus, or made sense from the standpoint of overall U.S. foreign policy. We sanctioned Turkey because the Greek-American lobby was significantly bigger and more effective than the Turkish-American lobby here at home. That's the sum total of why we did it. Ultimately, we were able to get it reversed. But it took numerous votes in Congress before we were able to turn it around.

That was an example from 24 years ago, but it continues to happen. Right now there

are sanctions on Azerbaijan. We're not allowed to spend any U.S. government dollars in that country. That's not a response to what we perceive to be sound foreign policy in that part of the world. It's more specifically a reflection of a desire by Congress to respond to the concerns voiced by the Armenian-American community, which is bigger than the Azerbaijani-American community. As a result we currently have a prohibition against U.S. government money being spent in Azerbaijan.

The problem in part stems from the view by my former colleagues on Capitol Hill that sanctions are the low-cost option. It is the cheap, easy thing to do. You don't have to appropriate any taxpayer's money. You don't send any young Americans into combat. We're able to take a firm, aggressive action and do something about the outrageous behavior of the offending government, and, many members believe, it does not cost a thing. But that's a shaky premise, at best. Even though that is the view you will hear bandied about in the cloakroom, it is a false notion that has serious consequences, in part because our sanctions policy oftentimes generates unanticipated consequences. It puts us in a position where a part of our government is pursuing objectives that are at odds with other objectives that the United States has with respect to a particular region.

An example that comes immediately to mind has to do with efforts to develop the resources of the former Soviet Union in the Caspian Sea area. It is a region rich in oil and gas. Unfortunately, Iran is sitting right in the middle of the area and the United States has declared unilateral economic sanctions against that country. As a result, American firms are prohibited from dealing with Iran and find themselves cut out of the action, both in terms of opportunities that develop with respect to Iran itself, and also with respect to our ability to gain access to Caspian resources. Iran is not punished by this decision. There are numerous oil and gas development companies from other countries that are now aggressively pursuing opportunities to develop those resources. That development will proceed, but it will happen without American participation. The most striking result of the government's use of unilateral sanctions in the region is that only American companies are prohibited from operating there.

Another good example of how our sanctions policy oftentimes gets in the way of our other interests occurred in the fall of 1997 when Saddam Hussein was resisting U.N. weapons inspections. I happened to be in the Gulf region during that period of time. Administration officials in the area were trying to get Arab members of the coalition that executed operation Desert Shield/Desert Storm in 1991 to allow U.S. military forces to be based on their territory. They wanted that capability in the event it was necessary to take military action against Iraq in order to get them to honor the UN resolutions. Our friends in the region cited a number of reasons for not complying with our request. They were concerned with the fragile nature of the peace process between Israel and the Palestinians, which was stalled. But they also had fundamental concerns about our policy toward Iran. We had been trying to force the governments in the region to adhere to an anti-Iranian policy, and our views raised questions in their mind about the wisdom of U.S. leadership. They cited it as an example of something they thought was unwise, and that they should not do.

So, what effect does this have on our standing in the region? I take note of the fact that all of the Arab countries we approached, with the single exception of Kuwait, rejected our request to base forces on their soil in the event military action was

required against Iraq. As if that weren't enough, most of them boycotted the economic conference that the United States supported in connection with the peace process that was hosted in Qatar during that period of time. Then, having rejected participation in that conference, they all went to Tehran and attended the Islamic summit hosted by the Iranians. The nation that's isolated in terms of our sanctions policy in that part of the globe is not Iran. It is the United States. And the fact that we have tried to pressure governments in the region to adopt a sanctions policy that they clearly are not interested in pursuing has raised doubts in the minds of many of our friends about the overall wisdom and judgement of U.S. policy in the area.

We oftentimes find ourselves now in a position of advocating secondary boycotts. I can remember when the United States was the preeminent *opponent* of secondary boycotts. We opposed them, for example, when the Arabs tried to impose secondary boycotts on companies that did business in Israel. We thought that was a terrible idea. Now they are part and parcel of the Helms-Burton Act and also of the Iran/Libya Sanctions Act. Sanctions provisions in both of those laws are extraordinarily clumsy policy tools, illustrated by the fact that the administration has recently been waiving the provisions of both acts as not being in the interests of the United States.

The parochialism of the Congress in looking at these kinds of issues and responding to domestic political pressures, as opposed to pursuing what I would consider to be sound foreign policy, isn't new. When I was a member of Congress, my constituents in Wyoming wanted me to worry about Wyoming. That is not surprising since that is part of the way in which our system was designed. You don't always expect good national policy to be articulated by every member of Congress. But the president is expected to be the counterweight to that and to be able to stand up and be counted when necessary. The chief executive is supposed to take the hard-nosed position, to exercise the veto, to do what President Ford did back in 1974 with the Greeks and Turks, and what others have done subsequent to that. I would hope this administration will be more aggressive in that regard in the future than they have been in the recent past.

I do want to say a word about some positive developments that I think are underway with respect to these issues on Capitol Hill. I'm a big supporter of the Lugar bill. I think Sen. Richard Lugar (R-Ind.) and Congressmen Philip Crane (R-Ill.) and Lee Hamilton (D-Ind.) have put together a good piece of legislation in S. 1413. The Lugar bill would bring some sanity to the process by forcing a review of sanctions legislation, setting up sunset provisions, and assessing the effectiveness and economic impact of sanctions.

However, it is important for us not to assume that now, because there's a growing chorus of concern being voiced, we've made the case. There is still significant interest on the Hill in the use of unilateral sanctions. The House in 1998 passed a whole new set of sanctions based around the concept of religious persecution. Some of my friends in the House who supported the Wolf-Specter bill, H.R. 2431, tell me they don't really want to see it passed. They know that the Senate will kill it. Then I go over and talk to my friends in the Senate, and they say, "Who me?" The fact is that supporters of the legislation are sincere, well-meaning people who are concerned about the religious persecution issue. I don't mean to take anything away from the motives of many of those who do support these kinds of bills. But the net

effect of their approach will be to add a whole new category of unilateral sanctions that will be ineffective in achieving their ultimate goals.

I have not stressed the commercial arguments against sanctions. And I won't bore you with giving you a long list of how difficult it is for an international company like ours to function when our partners overseas are periodically reminded that we may not be able to carry through on a particular project because somebody here at home decides to sanction the particular country involved—thus causing us to be viewed as being an unreliable partner. There is a whole long, separate speech I could give on the difficulties U.S. firms encounter as a result of the use of unilateral economic sanctions and on the subsequent commercial and economic consequences to the U.S. economy. What I've tried to do today is make the *policy* case against sanctions. They don't work. And as long as they don't work I think it is important for us to continue to remind people that we need to have some concern for the efficacy of policy before we advocate it as something the United States ought to pursue. I think it is important for us to recognize as a nation the enormous value of having American businesses engaged around the world. To recognize that engagement does more to encourage democracy and freedom, to open up societies, to create opportunities for millions of people who up until now have not been able to participate, than just about anything else we can do. We should look upon the capacities and capabilities and the desire of American businesses to be involved around the world as a valuable asset and not as a club that we can use to punish those who disagree with policies or goals or objectives of the United States.

This is also an excerpt from the Cato book, *Economic Casualties: How U.S. Foreign Policy Undermines Trade, Growth, and Liberty*.

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