Introduction: The Failure of Deterrence and the Prospects of Positive Anti-terrorist Policies

This book provides a critique of deterrence policy; that is, the use of the stick, to fight terrorism. Coercion or negative sanctions are found to have little effect and, in important instances, are even counterproductive. The same holds, on the whole, for economic sanctions imposed on countries supporting terrorists. Using coercion is useful only under very specific conditions. This conclusion stands in stark contrast to the anti-terrorist policy undertaken all over the world.

It is therefore important to seriously consider alternative anti-terrorist policies going beyond coercion. Such an alternative view is presented here. Most importantly, the book demonstrates that there are viable and effective policies using a positive approach, that is, using carrots, to fight terrorism. Three specific anti-terrorist policies are proposed.

POLYCENTRICITY OR DECENTRALISATION REDUCES VULNERABILITY TO TERRORIST ATTACKS

A system with many different centres is more stable due to its diversity, enabling one part to substitute for another. When one part of the system is negatively affected, one or several other parts may take over. Polycentricity is effective in reducing risk and uncertainty. This basic insight also applies to terrorism. A target’s vulnerability is lower in a polycentric society than in a centralised society. The more centres of power there are in a country, the less terrorists are able to harm it. In a decentralised system, terrorists do not know where to attack because they are aware that one part can substitute for another so that the attack will not achieve as much.
In contrast, in a centralised system, most decision-making power with respect to the economy, polity and society is to be found in one location. This power centre makes an ideal target for terrorists and therefore is in great danger of being attacked. This creates huge costs. If the centre is targeted and hit, the whole decision-making structure collapses, promoting chaos.

A prospective target of terrorist attacks can reduce its vulnerability by implementing various forms of decentralisation:

- **The economy**, by relying on the market as the major form of decentralised resource allocation. It refers to both decision-making as well as space;
- **The polity**, by resorting to the classical division of power between government, parliament and courts. Decentralisation of space is achieved by a federalistic structure, with decision-making power delegated to lower levels of the polity (states, provinces, regions and communes);
- **The society**, by allowing for many different actors, such as churches, non-governmental organisations, clubs and other units.

POSITIVE INCENTIVES CAN BE OFFERED TO ACTUAL AND PROSPECTIVE TERRORISTS NOT TO ENGAGE IN VIOLENT ACTS

Positive sanctions consist in providing people with previously non-existing or unattainable opportunities, thereby increasing their utility. The opportunity costs of being a terrorist are raised because other valued possibilities are now available. Various approaches are possible:

- **Reintegrating terrorists.** One of the most fundamental human motivations is the need to belong. This also applies to terrorists. The isolation from other social entities gives strength to the terrorist group because it has become the only place where the sense of belonging is nurtured. An effective way of dealing with terrorism is to break up this isolation. The (potential) terrorists need to experience that there are other social bodies able to provide them with a sense of belonging. Interaction between
groups tends to reduce extremist views. Extremist views are more likely to flourish in isolated groups of like-minded people. Segregation reinforces extremism and vice versa. Breaking up this vicious circle of segregation and extremism can therefore be expected to lower the propensity of terrorists to participate in violent activities.

There are various ways of motivating terrorists to interact more closely with other members of society and thereby to overcome their isolation. The terrorists can be involved in a discussion process, which takes their goals and grievances seriously and tries to see whether compromises are feasible. Moreover, terrorists can be granted access to the normal political process. This lowers the costs of pursuing the political goal by legal means and hence raises the opportunity costs of terrorism.

The same principle of anti-terrorist policy can be applied to nations supporting or harbouring terrorists. If such countries are internationally isolated and identified as ‘rogue states’, large sections of the population tend to become radicalised. A more fruitful strategy is to help them re-enter the international community and adopt its rules.

- Welcoming repentents. Persons engaged in terrorist movements can be offered various incentives, such as reduced punishment and a secure future life if they are ready to leave the organisation they are involved with and are prepared to talk about it and its projects. Terrorists who genuinely show that they wish to renounce terrorist activities should be supported and not penalised. The opportunity costs of remaining a terrorist are thereby increased.

- Offering valued opportunities. Persons inclined to follow terrorist ideas and undertake terrorist actions can be invited to visit foreign countries. Universities and research institutes, for example, can offer such persons the opportunity of discussing their ideology with intellectuals. It is to be expected that being faced with the liberal ideas existing in such places of learning will mellow their terrorist inclinations. At the very least, the (potential) terrorists have access to new and radically different ideas, compared with the situation in which they live within a closed circle of other terrorists.
Precisely this point constitutes an argument in favour of open markets and against economic sanctions that restrict the opportunities available for individuals in target countries.

**DIVERT ATTENTION FROM THE TERRORIST GROUPS**

The relationship between terrorists and the media has been described as ‘symbiotic’, which means that it is mutually advantageous. The interests of the terrorists are similar, or even identical, to those of the media. Both want to make news, and both want to keep the incident in the headlines for as long as possible.

Terrorists have become very skilled in using the media to achieve maximum effect. They have learned what the media need to propagate their political demands to millions and even billions of people. Terrorists have started to change their tactics in order to accommodate media needs.

Terrorists can be prevented from committing violent acts by reducing the amount of utility they gain from such behaviour. A specific way for terrorists to derive lower benefits from terrorism would be for the government to ascertain that a particular terrorist act is not attributed to a particular terrorist group. This prevents terrorists from receiving credit for the act and thereby gaining the full publicity for having committed it. The government must see to it that the terrorist act and the corresponding media attention are not monopolised by a particular terrorist group.

Diffusing media attention can be achieved by the government supplying more information to the public than the terrorist group responsible for a particular violent act would wish. It must be made known that one of several terrorist groups could be responsible for a particular terrorist act. The authorities have to reveal that they never know with absolute certainty which terrorist group may have committed a violent act. Even when it seems glaringly obvious which terrorist group is involved, the police can never be sure. The government should openly discuss various reasonable hypotheses.

The information strategy of refusing to attribute a terrorist attack to one particular group systematically affects the behaviour of terrorists. The benefits derived from having committed a terrorist act
decrease for the group that has undertaken it because it does not reap the much hoped for public attention. The political goals the group wants to publicise are not propagated as much as they would have liked. This reduction in publicity makes the terrorist act (to a certain extent) pointless, as modern terrorism essentially depends on publicity. Terrorists who are ready to risk their lives in order to broadcast their political beliefs feel deeply dissatisfied. The frustration is intensified by the feeling that other political groups not ‘courageous’ enough to run the risk of undertaking terrorist acts profit from free riding. This frustration can be intense because terrorist groups tend to be in a state of strong competition with one another, even when they have similar political beliefs.

Providing terrorists with positive incentives or ‘carrots’ to no longer engage in violent actions represents a completely different approach from the conventional anti-terrorist policy of deterrence based on coercion, or ‘the stick’. My proposals seek to break the organisational and mental dependence of persons on the terrorist organisations by offering them more favourable alternatives. They are given an incentive for relinquishing terrorism. Deterrence policy does exactly the opposite: terrorists are locked into their organisation even more and see no alternatives but to stay on.

The proposed anti-terrorist policy based on a positive approach has two important advantages over a coercive policy. First, and most importantly, the whole interaction between terrorists and the government transforms into a positive sum game: both sides benefit. The government’s effort is no longer directed towards destruction. Rather, the government makes an effort to raise the utility of those terrorists who choose to enter the programmes on offer. It provides alternatives to persons considering engaging in terrorism. In contrast, deterrence policy of necessity produces a situation where both sides stand to lose. The terrorists are punished (incarcerated, killed, etc.), while the government often has to raise large sums of money to fund their deterrence strategy.

Secondly, the strategy undermines the cohesiveness of the terrorist organisation. The incentive to leave is an ever present threat to the organisation. The terrorist leaders no longer know whom to trust because, after all, most persons can succumb to temptation. An effort to counteract these temptations by prohibiting members from taking up the attractive offers leads to conflicts between leaders and rank-and-file members. With good outside offers available to the members
of a terrorist group, its leaders tend to lose control. The terrorist organisation’s effectiveness is thereby reduced.

This book intends to show the advantages of using an economic approach when analysing terrorism. This point of view differs markedly from the stance taken in political science, sociology or psychology. These latter approaches tend to dominate the field, while the economic view tends to be neglected. According to the economic approach, people act in a rational way. This also applies to potential and actual terrorists. They compare the benefits and costs of alternative actions. When the benefits of their undertaking a terrorist act increase, they engage more fully or more often. When the costs of their undertaking a terrorist act rise, they decide to undertake such terrorist acts less and look for alternative measures to make their political discontent known.

The economic approach to terrorism might be used to argue that only the threat of punishment and death induces terrorists to refrain from their activities. As will be shown, however, such reasoning is superficial and misleading. In particular, it reflects the fact that a deterrence policy creates substantial additional economic and political costs, increases vulnerability to terrorist acts, and strengthens terrorists’ cohesiveness and influence. Fighting terrorism by governmental counter-terror thus involves heavy costs, going far beyond the clearly visible budgetary outlays. Deterrence moreover induces terrorists to switch their activities to other areas and other kinds of terrorism that are more difficult to control.

The application of the economic approach to terrorism offers a wide range of anti-terrorism policies which are superior to deterrence. They are effective in dissuading potential terrorists from attacking. The positive approach championed here is not the only strategy and it does not work in every case. But, compared with the currently predominant deterrence policy, the favourable features by far prevail. There is no need to restrict deterrence policies; the positive approaches presented are in many respects better alternatives.

A crucial question is why deterrence policy is so often undertaken, although it is far from successful, and why positive policies are neglected. The reason is that government politicians derive personal benefits from using force. The same holds for the members of the military and police forces and secret services. In contrast, there are few proponents of positive anti-terrorist policies. This book argues that
appropriate constitutional designs would give the positive approach a better chance.

No general outline of terrorism is provided here – there are many good works doing that. Rather, the book focuses on aspects so far neglected in the literature, as well as on actual anti-terrorist policy. But it does provide an outline of the forms of terrorism in use today and in the past, definitions of terrorism, measurements of terrorist activities, as well as the consequences of terrorism on the economy.

This book is intended for easy reading, despite the (hopefully) precise economic arguments. The text does not use any formalism. A few arguments are illustrated by using simple graphs which are meant to aid understanding. No footnotes or citations (except for verbal quotes) cluster the text. Rather, at the end of each chapter the relevant literature is discussed.

Work on this book has extended over several years. Parts of the material were presented at the Conference on the Economics of Terrorism at the Deutsche Institut fuer Wirtschaftsforschung in Berlin in the spring of 2002, at the 3rd and 4th Corsica Meeting of Law and Economics in Marseille and in Reims, at a conference of the European Public Choice Centre in Rome, and at the Science Centre WZB in Berlin. The bulk of the book was written during a delightful stay as Zijlstra Professorial Fellow at the Netherlands Institute for Advanced Study in the Humanities and Social Sciences (NIAS). So many scholars made comments on the approach to terrorism research presented here that it is impossible to mention them all. I would, however, like to indicate my special debt of gratitude to Roger Congleton, Geoffrey Brennan, Giuseppe Eusepi, Lars Feld, Philipp Jones, Hartmut Kliemt, Kai Konrad, Dennis Mueller, Bill Niskanen, Friedrich Schneider and Ludger Schuknecht.

I am grateful to my co-workers, Dr Matthias Benz, Reto Jegen, Stephan Meier and Dr Alois Stutzer for excellent advice on how to improve the manuscript. Particular thanks are due to Simon Luechinger, with whom I have written several papers on the economics of terrorism and whose insights are reflected in this book. He helped me greatly by making many useful suggestions for clarifying both content and presentation. Anne Simpson of NIAS was kind enough to check the English language. Rosemary Brown carefully and skilfully went through the whole manuscript and greatly improved the style.