

TERROR AND ECONOMY

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Abstract

Terrorism must be studied carefully and in detail to be overcome. It is a complex phenomenon that has many different roots. Therefore, it cannot be explained by a single root cause. Terrorism also has significant economic consequences. In this study terrorism and its economic costs and consequences are briefly discussed.

Keywords: *Terror, terrorism, economic consequences of terrorism.*

JEL: *Z00, Z19*

TERÖR VE EKONOMİ

Özet

Terörizmin üstesinden gelebilmek için onu dikkatli bir şekilde ve ayrıntılı olarak arařtırmak gerekmektedir. Terör karmařık bir konudur ve pek çok sebebe dayanmaktadır. Bu yüzden, tek bir sebeple açıklanamaz. Terörizm aynı zamanda, önemli ekonomik sonuçlar da doğurmaktadır. Bu çalışmada terörizm ve onun doğurduğu ekonomik maliyetler ve sonuçlar ele alınmaktadır.

Anahtar Kelimeler: *Terör, terörizm, terörizmin ekonomik sonuçları*

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Terror was first used to describe the French Revolution's reign of terror in 1793 – 1794. The Jacobins' used terror as an instrument of governance to consolidate the new revolutionary government by intimidating all opponents perceived as "enemies of the people". Maximilien Robespierre, one of the leaders of the revolution believed that government should have virtue at peace, but in times of revolution it must use terror in order for democracy to succeed. On 26 July 1794, Robespierre announced to the National Convention a new list of traitors against the revolution. Extremists fearing their names to be on the list, allied with moderates and repudiated Robespierre and his "reign of terror". Robespierre and his close followers were executed by guillotine.

In time the meaning of terror has changed and terrorism has increasingly attracted attention in social sciences since the 1960s. The main reason of this is that during the Cold War conventional wars were extremely costly. Therefore the Cold War rivalised towards unconventional warfare, resulting in a spread of terrorist organizations and their activities throughout the 1960s, 1970s, and 1980s and increased use of terror by non-state actors lead to a greater focus on terrorism in the social sciences (Özdamar, 2008: 89). Following the September 2001 attacks the importance of terrorism heightened and research on the economic analysis of terrorism burgeoned. Another result of the attacks is that governments declared war against terrorism. With the aim of reducing the incidence of terrorism, governments used counter-force, in particular deterrence policy. In many countries governments began to play a bigger role in the economy. However, this resulted in an economic trade-off in the form of crowding out R&D investments, reduced international trade and slower economic growth. There is also an increase in private sector security spendings. In this paper I try to discuss economic consequences of terrorism and the relationship between terror and economy.

Definition

Terrorism is defined as "the premediated use, or threat of use, of extranormal violence to obtain a political objective through intimidation or fear directed at a large audience" (Koh, 2007: 129). Crucial ingredients

of this definition is the political objective that terrorists try to achieve and use of extreme violence. Effects of terrorist activities are not limited to the immediate victims. They are designed to inflict psychological effects that extend beyond them. Terrorist threats and actions have come in many forms, including hijacking of commercial flights, suicide attacks, bombing the buildings in cities and gas attack in metro.

The aim of the terrorist is to terrify people, to force them to do what they want. This means that terrorists aim to create effect (fear) on wider audience than the targets. So terrorists do not ask something specific from their victims but try to create an environment in which they can ask for political change (Özdamar, 2008: 91). In general, terrorism comes in two varieties: domestic and transnational terrorism. In domestic terrorism, the perpetrators, victims and audience are all from the same country. There are no spillovers of benefits or costs to other countries. Thus, there is no need for international cooperation. Transnational terrorism has implications for two or more countries in terms of perpetrators, victims, or audience. If a terrorist action starts in one country and terminates in another, then this is transnational terror (Rosendorff & Sandler, 2005: 172).

Root Causes of Terrorism

Terrorism is a complex problem and has diverse origins. Therefore there are different explanations of roots of terrorism. To fight terrorism efficiently, its causes must be systematically studied. It seems that there is a clear link between political systems and terrorism. This makes one think that terrorism is a by-product of the political system which cannot be overcome before those systems are corrected. Terrorism can be seen as a desperate response of weak or powerless groups to power and resource distribution of the current international system. The current international system is seen as unjust by terrorists whom see themselves as defending the weak and punishing the the strong (Çınar, 2009: 97). Despite the growing body of empirical studies there is no consensus on the determinants or root causes of terrorism, on the contrary, thoughts have differed widely. The main determinants of terrorism can be listed briefly as follows.

Economic Roots

Some academic scholarship and many commentaries assert that economic issues like poverty and income inequality matter for terrorism ‘by effecting level of deprivation and feelings of injustice and hence political tension (Çınar, 2009:106). On the other hand, some other scholars say that it is difficult to determine a direct link between economic conditions and terrorism. Economists Alan Krueger and Jitka Maleckova studied the influence of poverty and education on terrorism but found no evidence that reducing poverty or improving education would “meaningfully reduce international terrorism” (Krueger & Maleckova, 2003).

Terrorism is not an economic problem but a political problem. However, politics affects the economic conditions by affecting economic policies. If these policies create more injustice, inequalities and poverty, then the people who are suffering from these policies will raise their voices against the politicians. Therefore, there is a link between economic conditions and terrorism but this is not a direct one and injustice rather than poverty matters here. Consequently, the political conditions rather than economic ones are the main causes of terrorism. People may consent to poverty but they do not consent to injustice. When the economic situation deteriorates and the public standard of living declines, unhappy political groups (the weak) may begin to organise protests. Government’s response to these protests is very important. Governments can prefer one of two choices: an oppressive way or a democratic way. The oppressive way is counter productive and creates more problems than it solves (Çınar, 2009: 107).

Studies on the link between GDP level and terrorism show that it is not the poorer countries that breed terrorism (Kis-Katos, Liebert and Schulze, 2011: 24). Studies examining individuals also do not show a casual link between poverty and terrorism (Piazza, 2011: 339). However, Feridun and Sezgin found that ‘total GDP is helpful in explaining terrorism in Turkey’ (Feridun and Sezgin, 2008). According to them underdevelopment of the South Eastern part of Turkey has a significant role in terrorist attacks. In another study analyzing the characteristics of nations from which terrorism originates and of target nations Krueger and Laitin found that

source nations of terrorism were more likely to suffer from a lack of civil liberties and that economic conditions (as captured by GDP per capita) in these nations had no statistically significant relationship with terrorism (Krueger & Laitin, 2007).

Ideological Roots

Terrorism is not an ideology but a method. It has no united political agenda. Any ideology could be claimed by terrorist groups. Terrorists use ideology as a tool to have a relationship with an audience who believes in that ideology and to influence the wider public. In other words, ‘terrorism needs an all-encompassing philosophy, a religion or secular ideology, to legitimize violence, to win recruits to the cause and to mobilize them for action’ (Richardson, 2006).

Humans need to justify whatever they do. Any ideology or religion can be used for this justification. As Cinar pointed out people who belong to different groups in society may feel forced to take part in one of two opposing poles. ‘The opposing concepts of the others have such powerful meanings that they tend to supersede other conflicts and determine how these conflicts are interpreted, mobilised around, and fought over (Çınar, 2009: 111).

Religious Roots

Religion *per se* is not a cause of terrorism, but people can justify terrorism in religion. Any religion can be used for this, therefore it cannot be said that a specific religion is cause of terror. Because of that some terrorists claim that they fight for the sake of Islam, they are called Islamic terrorists. But it is wrong to see them as representing Islam. The same is true for other religions. A tiny proportion in any religion or ideology may resort to violence. Millions who also belong to same religion or ideology are not terrorists, even denounce terrorism.

Psychological Roots

Research on the issue of the psychological roots of terrorism could not find any link between personal psychology and terrorism. There is no unified theory that can be used to explain terrorists' psychology. Research that was carried out in the United States during the 1970s and 1980s about 'terrorist personalities' reveals that 'the militants of underground organizations were described as infantile, mentally distressed, and terrorized by external world; as defeated people or seeking to compensate for their failure by excluding themselves from society or seeking for revenge' (Çınar, 2009: 112). Conversely, some writers say that terrorists are normal persons. They are not clinically psychotic and depressed.

The Role of Political and Civil Rights

Political freedom can play an important role in spurring terrorism. Studies on different nations show that the incidence of terrorism is highest in nations with intermediate levels of political freedom. Highly democratic and autocratic regimes both have less terrorism. Research found that a transition from autocracy to democracy might lead to an increase in terrorism. These studies suggest that nations need to be patient on the road to democracy. Giving more political rights to citizens may increase terrorist incidences rather than in reducing them (Aubuchon, Bandyopadhyay and Younas, 2009: 11).

Terror History

Terror history in a country increases significantly as the expected number of further incidences. 'One additional terror event per year over the past five years increases the expected number of terror events by a factor of 1.002' (Kis-Katos, Liebert, and Schulze, 2011: 25). Conflict history is also an important determinant of domestic and international terror. One additional year of conflict in the past five years increases the expected number of terror events by between 13 and 19 %. This founding suggests that conflicts facilitate the creation of terror; either by acquisition of necessary skills in the conflict or because they show the weakness of the state.

Financing Terrorism

Terrorism is financed from different sources and in different ways. In the past one method used to finance terrorism was support provided by states. However, as a result of the end of the Cold War and the constant response of the international community authorizing economic sanctions against state sponsors, state sponsorship of terrorism has reduced significantly (Dalyan, 2008: 139). In this situation, instead of reducing their activities, terrorists relied on private financing. Private financing of terrorism can be classified into two categories: illegal funds and legitimate funds.

While some terrorist activities are financed by traditional criminal activities such as extortion, narcotics trafficking, counterfeiting, all kinds of fraud, smuggling, kidnapping, robbery, money laundering, others rely on more modern and legitimate ones, including donations or commercial enterprises (Rodriguez, 2011: 130). Legitimate businesses are used by terrorist groups and their supporters to raise funds in order to cover terrorist activities and as a front for money laundering (Dalyan, 2008: 140).

In order to move funds, terrorists have been using the formal banking system. Especially off-shore financial centres with lax regulations make the movement of funds across international borders easy. Besides formal banking systems, terrorists have also been using informal value transfer (IVT) methods, such as *hawala*. Another method is to use *cash couriers*.

Economic Costs Of Terrorism

The immediate costs of terrorism are destruction of life and property. For example, in the case of the September 11 attacks, while the magnitude of the loss is huge - \$ 33 to \$ 36 billion in New York City, according to one authoritative estimate –this destruction of human and physical capital and related loss of output was quite small in relation to the size of the economy (Gold, 2004: 2). Although business activity, especially air travel suffered, the regional and national economies have recovered relatively fast. But when terrorism persists for a long period of time, the cost can increase. A

study on the Basque region in Spain found a ten per cent decline in GDP. Reduction in tourism-related spending and foreign exchange earnings as a result of terrorism have also been found for Austria, Egypt, Israel, Italy, Kenya, and Turkey. Terrorism also leads to a reduction in inflows of foreign direct investment.

Combating terrorism also creates economic cost for it requires resources. State allocates more resources to security and businesses are also forced to allocate more resources to security as the threat of terrorism increases. Additionally, time lost due to tighter restrictions on travel, extra effort to get goods through customs, and greater difficulties for workers moving across borders are other costs borne by businesses and customers (Gold, 2004: 4). These extra resources allocated to security could be used more productive activities such as health care and education, which are important components of human capital formation.

Short term effects of terrorism include the disruptions to sectors such as airline industry, tourism and hotel industries. The dampening of consumer and investor confidence lead to decline in consumption and production. In addition, a sharp withdrawal from the capital markets is expected. As seen following the 9-11 attacks defence spending increases. After the 9-11 attacks there was increased defence spending in the United States and other major countries. The main reason for the increase in world military spending was the massive increase in the U.S.

A longer term economic consequence of the threat of terrorism is an increase in governmental involvement in economy. Governments will play a bigger role in allocating capital. When the Cold War ended with the decline of the Soviet Union there was a resource shift from defence spendings to the private sector. As investments shift from private sector to defense and security-related spending because of terrorism, the directly productive capacity may be crowded out. Besides, R&D investments will shift towards technologies that relate to national security and away from technologies that enhance economic productivity.

Threat and attacks of terror can also change patterns of demand. Reductions in demand have particularly been seen in the transport and tourism sectors. 'Such effects through costs and changed demand are

reflected in financial markets where asset values respond to changes in expected profitability' (Brücka & Wickström, 2004: 295). Another indirect effect of terror is an increase in transaction costs. In fact, what causes these increases is the policy response to the attacks, not the attacks themselves. The empirical results also confirm that terrorism has important fiscal effects and both direct and indirect effects on the growth rates of countries. Many sectors in the economy are affected by terrorism, but some of them are affected more than the others. Now we can look at the sectors from this perspective.

Trade and Investment. Foreign trade can be affected by terrorism in several ways. First, with the increase in insecurity the costs of doing business are raised. Second, security measures as the war against terrorism increase transaction costs. Third, traded goods may be destroyed (Frey, Luechinger, and Stutzer, 2007: 11). In summary, terrorist attacks and the war on terrorism would adversely affect trade flow, as costlier airfreight and longer processing times at customs increase the cost of trade. Terrorism may affect the investment level and, hence, economic growth through its impact on aggregate consumption and savings. Additionally, it can be asserted that terrorism not only affects the level of investments but also the composition of investments. Investments in non-traded capital goods, or non-residential construction are particularly risky in an environment of terrorism and political instability. Therefore, these kinds of investments may be reduced more than investments in machinery and equipment (Frey et al., 2007: 9).

Foreign Direct Investment. Terrorism changes the allocation decisions of firms investing in real foreign assets. Because terrorists can easily attack and damage foreign-owned firms and seriously disrupt their activities. In this situation, foreigners considerably reduce the inflow of capital to the country and invest in another country. If the reduction in cross border investment flows becomes significant, it could slow down the diffusion of technology among countries and impede technological development as well as economic growth.

Insurance. Because of terrorist attacks, insurers and reinsurers either raises their premiums, curtails or drops altogether coverage for terrorism-related

risk. Following recent attacks the strongest impact in insurance premiums has been felt in the aviation sector, but such sectors as transportation, construction, tourism and energy generation have also been affected. The insurance industry is one of the industries directly affected by the global terrorism. For example, the losses from the 9-11 attack experienced by insurance industry are estimated at between \$ 30 billion and \$ 58 billion.

Stock Market. Stock market is also affected by terror attacks. In a study Chesney et al found that approximately two-thirds of the terrorist attacks lead to a significant negative impact on at least one stock market (Chesney et al., 2011: 254). The Swiss stock market is affected by the highest number of attacks while the American stock market by the lowest number.

Tourism. The rationale for the attacks of terrorists against tourists is to harm the target country's economy. Tourists are less likely to choose a destination with a higher threat of terrorist attacks for their holiday. Countries providing tourism services can be easily substituted by another country and, therefore, negatively affected by terrorist attacks to a substantial extent (Frey et al., 2007: 5).

Conclusions

Terrorism is defined as “the premediated use, or threat of use, of extranormal violence to obtain a political objective through intimidation or fear directed at a large audience”. Terror attacks are designed to inflict psychological effects that extend beyond immediate victims.

Terrorist threats and actions have come in many forms. Terrorism is a complex problem and has diverse origins. Therefore there are different explanations of roots of terrorism. To fight terrorism efficiently its root causes must be systematically studied.

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The immediate costs of terrorism are destruction of life and property. When terrorism persists for a long period of time, the costs can increase.

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