



Decentralization as a disincentive for terror

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Abstract

Consideration of anti-terrorism policy has focused almost exclusively on deterrence that seeks to fend off terrorism by raising the costs of undertaking terrorist acts. This paper suggests an alternative approach to anti-terrorism policy that is based on reducing the expected benefits of undertaking terrorist acts to prospective terrorists rather than raising the costs of doing so. Specifically, it is argued that strengthening decentralized decision-making in the polity and economy provides disincentives for terrorist attacks.

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1. Introduction

Politics focuses almost exclusively on deterrence in its fight against terrorism. Terrorists must be dissuaded from attacking by threats of heavy sanctions and by using police and military forces to fight them. This strategy has also been central in rational choice analyses, most of which start with the model of subjective expected utility maximization.¹ In contrast to the prominence given to deterrence, the evaluation of this strategy by

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¹ See, e.g., Landes (1978), Kirk (1983), Sandler et al. (1983) and Lichbach (1987). Only a small part of the vast literature on terrorism, however, uses a rational choice approach and, even then, usually concentrates on specific aspects. An overview on important contributions based on economic methods is provided by Enders and Sandler (1995) and Sandler and Enders (2004). For further references, see also Frey and Luechinger (2003) and Frey (2004).

terrorism-experts is often unfavourable.² Hoffman (1998, p. 61), for example, claims that countless times “attempts by the ruling regime to deter further violence [...] backfired catastrophically”. Despite this failure of deterrence, there are no systematic attempts to consider alternative anti-terrorism policies.

We suggest an alternative counter-terrorism strategy; terrorist acts may be diminished by *reducing the expected benefits* of terrorist acts to the terrorists instead of raising the costs. Specifically, we suggest that strengthening decentralized decision-making may provide an effective disincentive against terrorist attacks. We do not believe that decentralization is the only effective strategy, nor that it can be effective in every case. Moreover, as decentralization as a counter-terrorism strategy has been rarely discussed and has never been applied in reality, our propositions are to some extent tentative. Nevertheless, given the frequently established failure of deterrence, we believe that systematic reasoning about alternatives is desirable, if not necessary. In a previous paper, we discuss another alternative to a deterrence policy (Frey and Luechinger, 2003). In contrast to the proposition presented here, in the previous paper, we suggest strategies aiming at *increasing expected opportunity cost* of terrorism, such as principal witness programs, broad access to the media and normal political process as well as reintegration measures.

Section 2 presents a simple rational choice model of terrorism based on the marginal benefit (MB) and marginal cost (MC) of undertaking terrorist acts. Section 3 discusses anti-terrorism policy and Section 4 states our conclusion that decentralization of the polity and the economy is a disincentive for terrorists.

2. The calculus of terrorists

The terrorists can be characterized as rational actors who rely on violence or its threatened use to promote their political goals (see, e.g., Lichbach, 1987) and who derive utility and incur costs from undertaking terrorist acts. According to a model of subjective expected utility maximization, the optimal level of terrorist activity from the point of view of prospective terrorists is where the MB from undertaking an additional terrorist act equals the MC of doing so. Rational choice theory predicts that this will correspond to the amount of terrorism observed in reality. In Section 3, we look more closely at what determines this equilibrium.

² In particular, several unintended or even counterproductive consequences of deterrence are discussed in the literature. In the political science literature, it is often stressed that government repression of dissidents sparks off feelings of frustration and anger in larger fractions of the population. Deterrence may therefore increase the future mobilization of dissidents (Lichbach, 1987). It has often been argued that terrorists aim at provoking such a repressive overreaction (Lake, 2002). According to Wilkinson (2002), there is abundant evidence that such responses play into the hands of terrorists and become totally counterproductive. Whenever a deterrence policy is directed against a certain type of attack, the terrorists react by substituting this type of attack with another, often more deadly, one (see, e.g., Sandler and Enders, 2004). Therefore, anti-terrorist policies are far less effective and more costly than anticipated. Deterrence has also unintended consequences for initially uninvolved countries. A deterrence policy of a potential target has negative externalities for other potential targets because it diverts terrorist attacks to these other targets. Therefore, without cooperation among the potential targets, each target expends too much effort on deterrence (Sandler and Lapan, 1988).

2.1. *Benefits of terrorism to prospective terrorists*

Terrorism is often seen as a specific form of political participation: “Terrorists attempt to assert their interests in the complicated process of deciding ‘who gets what, when, how’, the process of politics” (Badey, 1998, p. 96). The ultimate aims of terrorism are—among others—the redistribution of power and property rights and the extortion of rents. For this, terrorists seek to attain three main tactical goals, all aimed at imposing the maximum possible cost on the country under attack (see, e.g., Schelling, 1991; Enders and Sandler, 1995):

- (1) Terrorists seek the *attention of the media* in order to make their cause more widely known. Laqueur (1977, p. 106) goes so far as to claim that “terrorist action is nothing, publicity is everything”.
- (2) Terrorists seek to *destabilize the polity*. When the government loses power and, more importantly, when the political system’s legitimacy is eroded, the terrorists’ chances of achieving their goal improve.
- (3) Terrorists seek to *damage the economy*. They want to impose material costs on the population in order to force them to comply with their demands. Empirical research has shown that terrorist acts significantly reduce the number of tourists (see, e.g., Enders et al., 1992) as well as foreign direct investment (Enders and Sandler, 1996), gross domestic income and stock prices (Abadie and Gardeazabal, 2003) as well as trade (Nitsch and Schumacher, 2004).

In order to achieve these goals, the terrorists undertake various types of attacks (see, e.g., Hoffman, 1998). One possibility is a targeted attack, for example the assassination of a political leader. A second possibility is an attack on a target with a high symbolic value. A third possibility is to disperse fear and panic among the population by attacking civilians (seemingly) at random. The anti-terrorism policy developed in the next section concentrates on the first two types of terrorist acts. According to Hoffman (1998), left-wing terrorists and, to a lesser extent, ethno-nationalist/separatist groups, rely particularly on the first two types of attacks, while religious terrorists are more indiscriminate about attacking civilians. Therefore, the proposed counter-terrorism policy is not a disincentive against all terrorist attacks, but against a significant number of them.

The MB reflects the benefit to terrorists of undertaking additional terrorist acts. It is assumed to diminish with increasing levels of terrorist activity. This is the case if additional terrorist acts have less and less effect on the targeted country and population.

2.2. *Cost of terrorism to prospective terrorists*

The MC of engaging in an additional terrorist act increases with increasing levels of terrorist activity because of limited specialized resources available to terrorists. To begin with, the easiest and most conveniently available targets are chosen. Thereafter it becomes increasingly difficult to undertake terrorist acts.³ Furthermore, the relationship between

³ Second-order conditions must hold. MC will decline if there are economies of scale in planning and executing operations (see, e.g., Sandler and Enders, 2002).

MC and the level of terrorist activity depends on the motivation of the terrorists. Highly intrinsically motivated terrorists, or fanatics, are convinced they are doing the right thing, irrespective of incentives from outside.⁴ In this case, terrorists are not expected to react to either the marginal costs or marginal rewards of their actions. The available evidence, however, suggests that most prospective terrorists react to external incentives (see, e.g., Enders and Sandler, 1995). Both extrinsic and intrinsic motives play a role.

3. Anti-terrorism policies

Within the framework of the simple calculus of MC and MB of terrorist acts, the options of a counter-terrorism policy are identified as either increasing the MC to potential terrorists of undertaking terrorist acts or reducing the MB. Deterrence policy aims at raising the MC of terrorist acts by making them more difficult to undertake and by punishing the actors more severely. An exogenous increase in the cost of undertaking terrorist acts results in a smaller equilibrium amount of terrorism. In the (unlikely) event that terrorists are solely intrinsically motivated, they would not respond to negative incentives and a deterrence policy would have less effect. Such a policy is also ineffective if it is offset by rewards. This would be the case if a larger punishment were interpreted as an indication to terrorists that their cause is particularly worthwhile and will be rewarded accordingly in afterlife. But deterrence policy does not solely depend on the incentives of the potential terrorists. It also seeks to prevent terrorist acts by making them more difficult to undertake. A case in point is tightening up security measures to prevent the hijacking of planes. Deterrence policy in many cases is thereby able to increase the perceived MC of terrorism and therewith to reduce the intensity and number of terrorist acts. This is the reason why deterrence is at the forefront of anti-terrorism policy.

The equilibrium amount of terrorism may also be diminished by reducing the MB of terrorist acts to the terrorists by making terrorism a less attractive option to potential terrorists. This second anti-terrorism policy option has been rarely discussed and seldom applied in reality.⁵ Specifically, we suggest that an effective way to reduce the MB of terror and thereby to provide disincentives for terrorist attacks is to *decentralize* both with respect to the polity and the economy.

3.1. Decentralizing politics

A polity with many different centres of decision-making and implementation is difficult, if not impossible, to destabilize. If one of the centres is hit and destroyed by a

⁴ For a precise definition and further discussion of intrinsic and extrinsic motivation, see, e.g., Frey (1997). In the realm of terrorism, such behaviour could also be explained by intertemporal utility considerations. A suicide bomber may place a very high value on the life hereafter and trade off current consumption for the delights of 72 white virgins in the afterlife.

⁵ Other anti-terrorism policies based on reducing the expected benefits of terrorism are discussed in Frey (1988) and Lapan and Sandler (1988). Frey (1988) suggests an information policy that would sharply reduce terrorists' benefits in the form of publicity. Lapan and Sandler (1988) analyze the often proposed and applied strategy never to negotiate with terrorists in hostage-taking incidents.

terrorist attack, the other centres can take over. That this is indeed possible has been demonstrated by a recent incident in Switzerland. In September 2001, a man ran amok in the parliamentary building of the Swiss canton Zug and shot dead no less than 3 of the 7 members of the government council, as well as 11 members of parliament. Nevertheless, within a very short period of time, the government was functional again, not least because the heads of the partly autonomous communes took over. A similar incidence in Armenia plunged the country into a political crisis. In October 1999, five gunmen burst into Armenia's parliament, assassinating the Prime Minister, Parliamentary Speaker and seven other government officials. Armenia's Defence Minister stated that the situation that had been created was fraught with uncertainty, and that the internal and external security of the state were in danger (Freedom House, 2000). Because of the centralized nature of Armenia, the killings left a power vacuum and lesser federal levels were not able to take over.

Decentralizing political power, or polyarchy, takes two forms: (a) political power is distributed between a number of *different political actors*. The classical division of power between government, legislature and courts, as well as democracy and the rule of law, are the most important; and (b) political power must also be divided up between various levels of government. In federal (i.e. spatially decentralized) countries, there is usually the federal, state/provincial/cantonal and the communal level. It is possible to go one step further still by introducing a fourth, regional level, or to grant far-reaching autonomy to various functional, overlapping and competing jurisdictions (for the idea of FOCJ, see Frey and Eichenberger, 1999). Strengthening political decentralization via the division of power and federalism therefore reduces vulnerability to terrorist attacks by reducing the attraction of terrorist actions for terrorists.

3.2. *Decentralizing the economy*

A market economy is based on an extreme form of decentralization of decision-making and implementation. The terrorist attacks on the United States in 2001 dramatically demonstrate that economic activity was quickly resumed, despite the high number of people killed and the staff of whole firms being incapacitated or wiped out. This was possible because there were a substantial number of competitors who could quickly be substituted rather than monopolistic suppliers. The more an economy functions according to market principles, the less vulnerable it is to terrorist attack. The terrorists' MB diminishes as terrorist activities prove to have little or no effect on aggregate economic activity.

4. Conclusion

We have made the case that strengthening decentralized decision-making may provide an effective disincentive against terrorist attacks. Political economy predicts, however, that a deterrence policy based on increasing the MC of terrorists will tend to be favoured by governments, because it visibly demonstrates politicians' determination to fight terrorism. In contrast, seeing and conserving the value of decentralization has more the character of a

public good whose maintenance is not directly attributed to the government in power. The disincentive for terror increases the importance of safeguarding political and economic decentralization at the *constitutional level*.

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