



IS THE WAR ON TERROR “WORTH IT”?

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INTRODUCTION

It has been five years since the terrorist attacks of 9/11 led the Bush Administration to proclaim a “war” against global terror, a war that has now exceeded, in length, the U. S. involvement in World Wars I and II, the Korean War and the Civil War. The United States has committed substantial human and financial resources to this long war, and has instituted major shifts in its foreign and domestic policies. The key question is what are we, as a nation, receiving in return for this major commitment. Are we safer today than we were five years ago?

THE COSTS OF TERROR

The objective of acts of terror is to impose social and economic costs on ordinary people, in order to ultimately influence the policies of governments. The 9/11 attacks have been estimated to have caused economic damages in New York of more than \$35 billion, a huge sum but relatively small given the size of the region’s economy. Indeed, the New York region appears to have recovered quite well, for the most part, and current trends are similar to those that were in place before the attacks. In general, larger and more diverse economies rebound more quickly from the damages inflicted by acts of terror.

In a number of countries where the incidence of terrorism has been ongoing, such as in Israel, Spain and Sri Lanka, the economic costs are considerably larger in relation to the size of the economy. The damages from acts of terror themselves are not large, even when an economic value is placed on the loss of life and personal injury, but acts of terror and threats of further acts lead to changes in the behavior of companies and individuals. Tourism declines, foreign companies cut back on their investments and residents tend to become more cautious, invest and spend less and become more conscious of security. In addition, governments, companies and individuals take on added costs in terms of security, insurance and other forms of protection, and these costs provide little in the way of positive economic payoff.

Governments, companies and individuals respond to terror in a variety of ways, mostly involving expenditures and shifts in patterns of behavior. U. S. government expenditures on national defense and homeland security, local government expenditures on first responders and private spending on security and insurance have all grown substantially since 9/11. These expenditures reduce what can be spent for other purposes and the reduction in many of these foregone alternatives, such as education, public health and research and development, can impinge upon

long-term economic growth. Clearly, an economy is better off if terrorist threats can be reduced, rather than having to spend larger amounts in protecting against them.

Some might argue that higher security-related spending generates income and creates jobs. This is an example of the “broken windows fallacy”: if I replace a vandalized window I am forced to spend income that would have been spent elsewhere. The jobs created in the window industry must be compared with the jobs lost elsewhere. Replacing the damaged window restores a previous status but may actually reduce my overall well being because of the foregone spending.

Other costs are less easy to quantify. Tighter security at airports and seaports raise the costs associated with international trade, while tighter immigration restrictions have made it more difficult for businesses and universities to attract the quantity and quality of skilled individuals that they did in the past. In a highly competitive global economy, these actions have adverse effects on the ability of countries to compete worldwide.

HOW EFFECTIVE ARE CURRENT POLICIES?

Given the magnitude of the costs involved, it is essential to ask whether the policies being adopted are effective: is the threat from global terror reduced? Are U. S. residents safer today than we were five years ago? U. S. counter-terrorism policies have had some successes, for example, in disrupting some terrorist financing networks and weakening some terrorist organizations. At the same time, while no major terrorist incident directed at the U. S. proper has occurred since 9/11, many experts believe that the probability of such an incident is greater, not lower. By most accounts, terrorist recruitment is up, and terrorist organizations have been continuously reorganizing. Moreover, while there is no overall assessment of policy effectiveness, there have been numerous highly critical analyses of specific policy initiatives, including a number, for example, from the Government Accountability Office.

Two recent evaluations suggest the magnitude of the difficulties. In December of 2005, the members of the bi-partisan 9/11 Commission issued a “report card”, evaluating the government’s response in homeland security, reform of intelligence and Congressional oversight, and foreign policy and nonproliferation. Letter grades were assigned to 39 separate components (with two Incompletes). Fully 17 of these grades were D or F. If a grade point average were constructed, assuming each category carried the same weight, this “student” would be at 1.88, essentially a C-.

In the summer of 2006, *Foreign Policy* magazine published the results of a detailed poll of 100 foreign policy experts, selected to reflect a range of perspectives. Eighty-six per cent felt the world was becoming more dangerous and 84%, including 71% of those self-identified as conservatives, disagreed with the statement that the U. S. was winning the war on terror.

WASTE, MIS-MANAGEMENT AND POOR ALLOCATION

The 9/11 Commission’s report card points toward one source of the problems. The Department of Defense, the Department of Homeland Security and the Department of State will spend upwards of \$600 billion in 2006, some 60 per cent of all federal discretionary expenditures. Yet much of this money is being spent in ways that do little, and maybe nothing, to enhance U. S. security. The defense budget, for example, includes a number of expensive weapons systems that have little utility in the present and expected future security environment. The F-22 fighter, originally planned in the 1980s to counter Soviet aircraft that were never built, remains in

procurement despite its ballooning costs, weak performance and absence of a clear mission. Ballistic missile defense continues to absorb almost \$10 billion per year despite an abysmal performance record in testing and the widespread opinion that any such system would be easily overwhelmed by multiple-warhead offensive missiles armed with countermeasures. Substantial expenditures related to the war in Iraq have been found to be the source of considerable waste and corruption. Perhaps most important, the Department of Defense has no consistent accounting and auditing system and in a number of cases, it has been impossible to ascertain the effectiveness or even the amounts in key areas of spending.

Management problems, especially with respect to procurement, have long been a problem in the Pentagon, although these appear to have become more severe in the present climate than in the past. Similar problems appear to be plaguing the Department of Homeland Security. The Department's mismanagement of disaster preparedness and relief, most prominently in the Hurricane Katrina debacle, does not bode well for its ability to respond to possible terrorist acts. Unfortunately, DHS appears to be adopting many of the worst elements of DoD procurement, with a "homeland security-industrial complex" rapidly forming and apparently exerting considerable influence over spending allocations.

At the same time, a number of programs that are more directly involved with counter-terrorist activities have had trouble securing adequate funding. One is the Cooperative Threat Reduction Program (Nunn-Lugar), designed to fund the securing of fissile materials within the former Soviet Union. While this effort to address the so-called "loose nukes" problem has run into a number of difficulties involving officials and institutions in the former Soviet Union, it has also been consistently funded at sub-optimal levels, and has received less than adequate support within the various U.S. government bureaucracies.

The substantial increases in offensive military operations and programs since 9/11 have not been accompanied by an equivalent growth in defensive or preventive programs. In some cases, administration budget officials have acted to limit spending on defensive programs, such as first responders, on the grounds that budgetary resources are too limited. Programs with the strongest political, institutional, and regional support have the upper hand. The result can be a weakening, not a strengthening, of the U.S. security posture.

THE MILITARIZATION OF COUNTER TERRORISM

Terrorism is a complex phenomenon and policies to counter terrorism must contain a wide range of tools: police and military, diplomacy, economics, cultural sensitivity, etc. Since 9/11, the most prominent feature of U. S. counter-terrorism policy has been the use of military force, to effect regime change in Afghanistan and Iraq. These activities have been costly, with budgetary allocations approaching \$500 billion and with total costs, including future spending for combat forces, equipment replacement and veterans health care, and including additional costs such as the estimated value of the lost economic contribution from the deaths and severe injuries of U. S. military and civilian personnel, expected to reach as high as \$2 trillion.

The U. S. government maintains that deposing the Saddam Hussein regime was a central element of the global war on terror. However, since the regime's overthrow, a wide range of expert opinion has judged that the threat to the U. S. and U. S. interests and activities abroad is at least as great if not greater than previously. George Tenet, then CIA Director, told Congress in March 2004, that, as compared with before the Iraq war, "The world ... today is equally, if not more,

complicated and fraught with dangers for United States interests....” Tenet’s successor, Porter Goss, testified in February 2005 that terrorists are utilizing the Iraq conflict as a recruiting tool and training ground to create experienced operatives who “represent a potential pool of contacts to build transnational terrorist cells, groups and networks” Indeed, since Tenet and Goss delivered their official evaluations the situation has deteriorated further. Even Afghanistan, initially seen as a success, has witnessed the return of the Taliban as an effective force.

ALTERNATIVES

Clearly, something different is required. What follows are some general suggestions for areas where new policy initiatives could be emphasized.

First, establish greater spending and administrative discipline over the government agencies most responsible for combating terrorist activities. Such discipline should start with Congress, which has the constitutional authority to authorize and oversee spending but which must first discipline itself.

Second, the toolkit for combating terrorism must reduce the emphasis on military activities, and expand and develop a range of alternatives, including diplomacy, economic incentives, and policing. Such a change may need to start with domestic politics. Acts of terrorism, especially large, visible acts such as the attacks of 9/11, generate a consider amount of fear and anger among a target population, an amount that appears excessive given the objective reality. For example an individual in the U. S. is far more likely to be killed or injured in an automobile accident than in an act of terrorism. The Bush Administration played up this fear and anger, which heightened public support for violent retaliation even when, in the case of Iraq, the retaliation had little to do with the threat. The task of a government, then, would be to develop policies that are effective and a language of political discourse that is more reassuring, rather than one that heightens the emotional content of the response.

A third element is to develop a better understanding of the threat. Terrorism is not an ideology but a tactic and groups that employ terror tactics do so because they think it will help them achieve their political objectives. Deterring such tactics and attempting to disrupt, or even destroy, the organizational structures of these groups is one response. However, the groups that have been most successful in generating support have been those that appear to reflect the grievances of a population. Addressing these grievances in non-military ways can be a complementary policy objective.

A policy area with a substantial economic dimension that can an impact on counter terrorism efforts is foreign aid. Aid policy by major donors has been emphasizing effective governance, widespread political participation, environmental sustainability, improved education and health care, and more democratic social representation, in addition to the traditional, and more narrowly focus on, economic objectives.

There is evidence of some success on the part of aid projects in reducing the incentives for people to join terrorist organizations. However, when aid projects are inadequately funded or administered, or are abruptly terminated, they can generate a backlash, inflating expectations without delivering results and reinforcing nascent support for terrorist activities.

CONCLUSION

Terrorism imposes substantial costs on target populations, but there are also significant costs associated with policies to combat terrorism. A society is better off if the threat from terrorism can be reduced, or even eliminated, just as it is better off if the threat of crime can be reduced or eliminated. Policy responses to terrorism need to be multi-faceted and flexible. Security policies, for example, need to be more cost effective, in order to both achieve results and to limit the negative economic consequences of devoting excessive resources to security purposes. Similarly, aid policies need to concentrate on achievable objectives, both to obtain positive results and to provide a more representative and optimistic outlook on the future. Policies need to be targeted at filling in the voids left by weak states and shifting incentive structures within societies away from the use of violence. But such policies can never be complete, just as policies to fight crime can never reduce crime to zero. There are too many potential sources of violence to expect policy to deal with them all, and incentive-based policies can never force everyone to disregard the ideological or psychological tendencies that lead them to resort to violence.

READINGS

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David Gold has taught at the New School since 2002. Previously, he spent fifteen years at the United Nations Secretariat, first in the United Nations Centre on Transnational Corporations and then in the Department of Economic and Social Affairs. Other appointments include teaching positions at Columbia University, the University of California, and Rutgers University. Since 2002, he has been a member of the Security Policy Working Group.

Professor Gold's primary research interest is the economics of national security. He is conducting research on economic incentives in terrorist organizations, how major arms exporting countries subsidize their arms industries, and why real defense spending in the United States fluctuates but doesn't just rise. Professor Gold co-chairs the New School Study Group on the Economics of National Security, which is currently studying the economics of terrorism. His writings have appeared in professional journals, newspapers and magazines, and increasingly on widely accessible web sites. Professor Gold received a B. S. in Agricultural Economics from Cornell University, an M. Ph. in Economics from Columbia University and a Ph D in Economics from the Graduate Center of the City University of New York.