

Frey, Bruno S., 2004, *Dealing with Terrorism – Stick or Carrot?*, Cheltenham, UK, Edward Elgar, xv+182, Hardcover, ISBN 1843768283

Giampaolo Garzarelli

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The work of Bruno Frey is always one step ahead of that of most others when it comes to the economic exploration of topical events and to introducing against-the-grain perspectives in the mainstream economics discourse. This short little book on terrorism is no exception.

The intent of Frey is to offer an economic (i.e., cost-benefit) analysis of terrorism and policies addressing it not just for the professional economist but for all those who have an interest on the topic. To this end, Frey not only limits technicalities as much as possible, but also avoids the use of footnotes, in favor of end-of-chapter bibliographical guides for those readers interested in extending their knowledge of the material covered.

The substantive novelty of *Dealing with Terrorism* does not hinge on analyzing terrorism with the economist's toolbox, however. Such type of analysis, though gaining an ever-increasing following after 9/11, has actually been around, especially thanks to the work of William Landes and, later, Todd Sandler (and colleagues), for quite some time; likewise, other studies in germane subfields, like the economic analysis of conflict, crime, and defense, were equally forerunning (e.g., work by Becker, Boulding, Hirshleifer, and Schelling).

Rather, the novelty of the book hinges on the different nature of the economic policy solution offered to *reduce* terrorism. Frey is in fact aware that it is not possible to completely cure terrorism for the simple pragmatic reason that it is not possible to always please everyone when it comes to political choices. Hence, he proposes a positive policy (the “carrot”) as opposed to a negative policy (the “stick”) approach in order to attempt to limit terrorism.

The stick policy concerns retaliation by coercive or even violent means (such as economic sanctions to countries aiding terrorists, imprisonment, no-negotiation stances, torture, and “war on terror”). The carrot policy instead refers to stances that stimulate

G. Garzarelli

School of Economic and Business Sciences, University of the Witwatersrand

e-mail: garzarellig@sebs.wits.ac.za

the creation of social institutions that are better suited to absorb terrorist shocks, that render joining terrorist causes less palatable, and that put less emphasis on the violent actions of terrorist groups. More precisely, Frey puts forth the following three positive policies.

(1) We should try to organize institutions in a polycentric fashion (pp. 85–94). The rationale for this is quite simple. As readers of Michael Polanyi, Friedrich A. von Hayek and Vincent Ostrom well know, a polycentric economic, political and social system shows less inertia in adapting to (endogenous or exogenous, continuous or discontinuous) change. At root, this is so because the ability to learn is a direct function of the degree of decentralization: learning increases with extent of decentralization because decentralization is synonymous with trial-and-error experimentation. Further, a polycentric institutional order makes it more difficult for a terrorist to select which of its many centers should be attacked, and, similarly to an electric circuit organized in parallel, also renders possible for it to keep working even if one (or more) of its centers collapses (think of the colored light bulbs of Christmas tree lights that keep working even if one or more burn out).

(2) We should address the problem of terrorism by also offering positive opportunities to the terrorist – rather than working against them, we could also try to work with them (pp. 95–119). A fundamental characteristic of terrorism is its compartmentalization with respect to both its various cells and to other spheres of society. To break this compartmentalization, we could, for example, offer terrorists the opportunity: to normally interact with other spheres of society, such as using the media to publicly make their claims without performing any acts of terror (as seems to be the case in the Netherlands, p. 111); and to make use of the institutionalized political process (as actually happened in Switzerland, p. 111). To make these positive opportunities concretely viable, we should tie them to positive rewards, such as reduced length of imprisonment for collaborators.

(3) We should make the terrorist use of the media less efficient (pp. 120–137). The terrorists know that media coverage is the best means to let the world know about their attacks. They are aware, moreover, that the media has all the interest to cover their acts because it makes audience. To limit media attention without recurring to censorship or to a police state, we could offer less-focused media coverage. If there is a terrorist attack, the media could be more vague as concerns the terrorist organization that undertook the attack and about the identity of the terrorists. “Most terrorist groups would prefer that no one is credited than that the publicity goes to another rival terrorist group. The authorities in charge of fighting terrorism may exploit this rivalry among terrorist groups by pointing out to the media that, among the likely perpetrators of a particular terrorist act, there may be terrorist groups known to be in competition with each other” (p. 130).

What is particularly noteworthy of Frey’s carrot approach is the fact that not only does it carefully lay out the benefits of the three proposals but also the costs – and hence their genuine viability as well. If compared to the US, for example, we infer that in European countries a multidimensional polycentric order would be difficult to implement, both because of older institutional path dependency and because of the smaller geographical extension of each individual country. Let it be clear, then, that Frey is no idealist. And it is above all for this reason that I believe that Frey has quite

successfully shown in a simple yet rigorous fashion how economics can offer valuable insights into the study of terrorism. Still, especially in light of the *realpolitik* approach adopted, I would have preferred to see a more extended discussion of what makes, strictly speaking, economic (and other social) behavior rational. It is in fact on the central assumption of economic rationality that most of Frey's theoretical analysis and policy proposal rests.

To make his case Frey employs an extended notion of what constitutes a rational man: Restricted, Resourceful, Evaluating, Expecting, Maximizing, Man – or RREEMM, for short (pp. 52–3). A terrorist is a RREEM Man because he is: Restricted by physical, technological, time, etc. constraints; Resourceful in the sense of adapting creatively to changing opportunities; Evaluating in terms of considering alternative courses of action according to utility; Expecting because able to react in the long term; Maximizing because able to perform calculations at the margin. Such extended notion is in accord with empirical results, such as the ones from vector autoregressive analyses (first employed in the subfield by Sandler and Walter Enders, extending earlier work by Landes), which show that terrorists perform substitutions in their targets and methods of attack. For example, as we introduce metal detectors in airports to prevent skyjackings, there is an increase in bombings of buildings. So, especially owing to the Resourcefulness property of RREEMM (arguably the main addition to the *homo oeconomicus* ideal type), it is suggested that a terrorist is not a psychopath, sociopath, schizophrenic, mentally deficient, or irrationally whatnot. In short, it is pointed out that a terrorist will respond to changing incentives efficaciously (e.g., plant a bomb in a bus if metro stations have adopted surveillance cameras).

Though RREEMM accords with factual terrorist behavior, it is not sufficient, in my view, to fully qualify terrorist behavior as rational. What is missing to completely render *homo terroristicus* rational is that aspect of rational behavior known as rule following.

Terrorists do not recognize that legitimate political processes are to be exploited (and, if need be, can be changed) to pursue their ends. That is to say that terrorists do not understand that the (admittedly dirty but, to repeat, legitimate) game of politics per se has become an institution with its own (formal and informal) rules, which, whether one likes them or not, if followed can lead to evolutionary stable strategies with welfare gains for all sides.

The terrorist often replies that the game of politics requires financial resources that are beyond his means. This is not a universally valid justification, however. In the case of *al Qaeda*, for example, the financial means, as we all more precisely learned after 9/11, are not only there but apparently also partially originate from legitimate enterprise.

The inability of terrorism to make use of the art of compromise is not a case of market failure, institutional inadequacy, nonconvexity or similar so-called imperfections; nor does the lack of political exchange rest on the contingent political regime (i.e., democracy, as history shows, is not a necessary condition for collective action). More simply, it seems to me that terrorism is a case where short term ideological convictions are so strong to obfuscate the perception of long run reciprocal gains through the following of rules of political exchange. That is, terrorism represents the dominance of short term objectives through ideology (which can include religious and

not just political, economic, cultural, and other belief systems) over that of long term objectives through rationality, properly defined. A terrorist attack is by nature a one shot game; a political compromise isn't necessarily so.

This does not simultaneously mean that a terrorist is unable to conceive of political exchange as such. On March 16, 1978, for instance, the Red Brigades (*Brigate Rosse*), an Italian left-wing terrorist group, kidnapped the former Prime Minister Aldo Moro in the hope to bargain his life for the liberation of some imprisoned fellow terrorists (when the attempt failed, Moro was brutally assassinated – though the Brigades usually spoke of political executions in these cases – on May 9, 1978). (Today, an offshoot of the Red Brigades, the *Nuove Brigate Rosse - Nuclei Comunisti Combattenti* – New Red Brigades - Fighting Communist Nuclei – don't even bother with kidnappings, but just kill innocent people who try to reform the market-choking Italian labor laws.) Additionally, the suggested prevalence of ideology over rationality in *homo terroristicus* likewise doesn't mean that there haven't been successful political compromises: think, for example, about the Israeli negotiations in Maalot in 1974 and the 1985–6 bartering of arms by the Reagan administration for hostage release (the Iran-Contra Affair) (pp. 58–9).

What characterizes the rationality of *homo terroristicus*, then, is the inability to reach objectives and to create long run options by following rules widely recognized as institutionally viable. As usual, however, there are exceptions. The faction of the Mujahideen known as the Northern Alliance, for example, reached a compromise with the US and was able to replace in 2001 the Taliban (a die hard faction of terror of the Mujahideen) government in Afghanistan. (Confusion on these matters often arises today because there is also – among others – another Mujahideen faction in Iraq fighting US troops; and what adds to the confusion is that few are aware that the forking of the Mujahideen is actually a child of US Cold War policy in Afghanistan during the Soviet invasion.) Similarly, some exponents of the Italian Red Brigades repented their acts of terror and, by trading type of sentence with fellow brigadiers (*brigatisti*), helped bring others to justice (cf. pp. 112–3).

My comments on ideology should not be considered as a critique of Frey's extremely balanced cost-benefit analysis of both terrorism and of his proposed policy alternatives; nor should they be considered, in a strict sense at least, as a statement for the irrationality of either terrorist behavior or ideology. Rather, they should be interpreted as making two extra literal claims. First, and most trivially, that we need a more sophisticated economic analysis of ideology (terrorist or otherwise). Second, and relatedly, that for its own survival, ideology itself should be pliable.

Social scientists in such fields as cultural anthropology, development studies, intelligence and security studies, international political economy, public economics, public policy, political science, and political sociology should find *Dealing with Terrorism* interesting. If there is one thing that I hope my ruminative thoughts make clear is that Frey offers copious food for thought.