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The price of terrorism

Jacques Fontanel, Michael Ward

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Summary : Terrorism is a premeditated act in order to create a climate of terror and to influence the international or national policy. The immediate costs of the terrorist attack are very difficult to calculate, because their economic consequences are in the short, medium and long runs. There are a lot of indirect costs of the September attack against the Twin towers, which conduce to an aggravation of the recession, new budget choices, new strategic and tactic arms and defence systems. Moreover, this attack is the principal cause of the war against global terrorism, the speculation on petroleum and energy and insecurity of the international system.

Le terrorisme est un acte prémédité visant à créer un climat de terreur et à influencer la politique internationale ou nationale. Les coûts immédiats de l'attaque terroriste sont très difficiles à calculer, car leurs conséquences économiques se situent à court, moyen et long terme. Les coûts indirects de l'attaque de septembre contre les tours jumelles sont très différents, ce qui conduit à une aggravation de la récession, à de nouveaux choix budgétaires, à de nouvelles armes stratégiques et tactiques et à des systèmes de défense. De plus, cette attaque est la cause principale de la guerre contre le terrorisme mondial, de la spéculation sur le pétrole et l'énergie et de l'insécurité du système international.

Terrorism, cost of terrorism, war, destructions

Terrorisme, coût du terrorisme, guerre, destructions

The attack of the 11th of September 2001 certainly marks a turning point in the global geopolitical situation. Taken as an act of war, it provided the necessary arguments to justify a military response against rogue states on the part of the threatened economic and political powers, especially the United States and its closest allies. It also provided convincing argumentation for the continuing globalization of policing, under the seldom contested leadership of the Americans. With this victory of leadership, the US as truly become the leader of a global police force which aims to guarantee democratic freedom from terrorist interruption of political as well as economic activities across the globe. If at the base the destruction of the World Trade Center and the damage to the Pentagon appears to mark the beginning of the end of the American empire, it at the same time enables the globalization of the military mechanism necessary to its continuation and expansion. Certainly governments need not have waited such a terrible attack to engage in a campaign against terrorism, notably to the detriment of governments that have indeed supported terrorism. The absence of the economic and military assistance, the almost total absence of economic commerce, as well as boycott and embargo in some instances were already in place constituting an extant, though ineffective, attempt to influence states that supported terrorism to abandon their explicit and implicit aid to various groups intent on the destruction of certain regimes around the world as well as the defeat of modernity in its economic and religious implications. .

However, terrorism did not seem concerned directly with the territory of the United States—which has come to be called the “homeland” in an unfortunately homage to the disastrous European history of the 1930s—but rather was more concerned with American foreign policies and the Saudi Arabian monarchy. Many countries have been directly targeted as sponsors or partners in terrorism, notably Algerian, Bahrain, Egypt, India, Jordan, Pakistan, Turkey, North Korea, Sudan, Iran, Irak, Syria, Lebanon, Pakistan, and of course Afghanistan under the Taliban regime. The network of bin Laden was without a doubt previously identified and fear in part as having considerable resources, not only from bin Laden’s personal and commercial undertaking,

but also from considerable financial assistance, charitable contributions, and drug traffic—as well as it turns out—financial shenanigans involving the bond and equity markets around the world.¹ However, the American intelligence and warning community apparently thought that state sponsored terrorism was in significant decline, owing in large part to the severity of the international sanctions in place.

Terrorism is a political act of violence perpetrated against noncombatant targets, either people or property, by clandestine individuals or groups. In this way religion takes on a political significance. Terrorism has evolved over time and across space. Traditional terrorism aimed at the violent contestation over a political or territorial situation that was considered to be intolerable. This has as its primary goal the transformation of society itself, a transformation brought about by bloodshed and visible destruction of symbols—government buildings, train stations, banks—of the old regime. Terrorism is often thought to be a response to the violence of the state, which is thought by most of its citizens to have a monopoly on the effective use of force. Terrorism demonstrates that this monopoly is not always complete. Saudi Arabia—homeland of the prophet Mohammad—nonetheless is considered to be a very repressive regime, one that is largely supported by western powers including the United States. It represents an exemplar of these latent conflicts, among a very religious people and a corrupt monarchy that is perceived to have close links to infidels. By extension, the terrorism of the state, which to paraphrase von Clausewitz is a means of making policy by other means, aims at destabilizing the economic and political foundation of another regime. The cycle of violence between Palestine and allied groups on the one hand and Israel on the other, represents this kind of “state terrorism.” Terrorism has escaped, however, its local boundaries and it is no longer accurate to think of it as a localized phenomenon. Rather like many other social phenomena, it has joined the process of “globalization”.

Terrorism has five important characteristics:

1. It is a premeditated act the goal of which is to create a climate of terror;²
2. It is aimed at one audience. The competing diversity of terrorisms kills the impact of each single act of terrorism;³
3. It uses destructive violence on symbolic targets along with visible collateral damage to illustrate the powerlessness of the regime;
4. It aims to influence political policy; and
5. It is an ultimate recourse in which the act of murder is justified by the putative importance of the mission.

Today, it is at the same time the assertion of a will—often religiously defined—to achieve a political goal that is precluded by an enduring conflict, often involving an asymmetric distribution of power. François Heisbourg⁴ describes hyperterrorism to explain the events of 9/11, with the conjunction of the destruction of mass and the voluntary apocalypse welcomed by

¹ Perl, R.F. (2001), *Terrorism, the Future, and the U.S. Foreign Policy*, CRS Issue Brief for Congress, The Library of Congress, September, 13.

² Wilkinson, P. (1992), *The European response to terrorism : Retrospect and prospect*, Defence Economics, Vol. 3. p. 289.

³ Scott, J.L. (2001), *Media congestion limits media terrorism*, Defence and Peace Economics, Vol. 12, pp. 215-227.

⁴ Heisbourg, F & FRS (2001), *Hyperterrorisme : la nouvelle guerre*, Odile Jacob, Paris.

the terrorists. During his first speech after the attacks, U.S. President George W. Bush noted that “The deliberate and deadly attacks which were carried out yesterday against our country were more than acts of terror. They were acts of war.” It makes sense therefore to discuss terrorist wars, a fairly new category of conflict. Following Clausewitz for most of the last 200 years, wars were between opposing states. War was an act of violence the object of which was to achieve compliance of one country to another’s national will and policy. If territory was one of the main goals of such policy, especially during earlier periods, this is certainly less the case today. The sovereignty of boundaries among states has been a key principle that has sustained a global geopolitical order since at least the Congress of Vienna in 1815 and certainly with the growth of independent sovereign nation states throughout most of the globe, has taken territorial conquest of the geopolitical agenda of all states.

In the case of 9/11 it is a battle launched by those desiring a new geopolitical order based on a set of fairly unique religious principles. It is not a war in the traditional sense. Primarily it was undertaken by a group of combatants that were not soldiers in the traditional sense, but were members of a religious movement. {This is a slippery slope here. *Que veux-tu que je te dise.* It is the reality. We can may be add “fanatic religious movement. I think it is better to say a cat when it is a cat} This was an attack on the civilized world. For George Bush, “Freedom and fear are at war. God is not neutral between them.”

The attack defined Afghanistan as having terrorism as its major state function. Under the Taliban regime it sought to utilize the means of terror on a scale only thought possible at the level of a state.⁵ If the same operation had been conducted by the Soviet Union during the Cold war, there can be no doubt that Washington would have responded with its nuclear arsenal. Whether bin Laden is the chief leader of this movement or not, he is certainly the principle financier of a group of several thousand men committed to the exit of the U.S. from Saudi soil and from its support of Israel. This Al-Qaida movement is financially sophisticated, using legal commercial enterprises in the Sudan as well as other tax havens. The objective, apparently, was the creation of an exceptional event calling into question American hegemony and the demonstrating the fragility of U.S. national security in the face of small determined groups. The U.S. is portrayed as oppressor and imperialists, defender of selfishness and consumption, whereas to the committed Al-Qaida only the laws of God deserved to be respected. According to Sheik Yassine—Palestinian chief of the Hamas organization—“In consequence and in agreement with the commands of Allah, we publish the following fatwa bound for all Moslems. The rule to kill the Americans and their Allies—civil and military—is an individual duty for each Moslem who can accomplish this wherever it is possible in order to release the Holy Place from their seizure....When all the doors are closed, open those of Allah.”

It is useful to highlight the immediate costs of the terrorist attacks of 9/11, to describe their economic consequences, and finally to highlight the new scenarios that seem plausible as a consequence of this universalization of terror in the years to come.

⁵ Daguzan, J.F, Lepick, O. (2000), *Le terrorisme non conventionnel*, Fondation pour la Recherche Stratégique, Recherches et Documents, Janvier.

1. The Costs of the Attacks on American 9/11 2001

This terrorist act is the most serious such attack ever seen to date. Part of this stems from the enormous impact on world public opinion of seeing broadcast in real time the melting inferno of the twin World Trade Center towers. Certainly too it is important for the sheer human and physical destruction in NYC and WDC. It also has had an impact in terms of the coordinated and extensive responses that have been made to the attack, both in the United States and around the world by the U.S. government and its allies. The act provided the basis for the war in Afghanistan and quite plausibly eventually many other rogue states. It has also had an impact on the consensus about the costs and benefits of globalization. Terrorism imparts a cost initially by the terrorists in preparation of attacks. It also can have disastrous immediate costs in terms of lives and property destroyed. Terrorism also imparts a longer term cost to the economy and to people's lives as defense against terrorism must be undertaken. It will not be economically efficient to conduct expensive military, economic, intelligence, and financial wars against global terrorists, even though it may be necessary.

1.1. the relative costs of the preparation for terrorism

The financial means which supported the attacks of September 11, 2001 were relative minor, even though they were generated by a network that was extensive and robust. Pilot lessons apparently cost on the order of \$10,000 and phones, travel, and living arrangements also do not present a high barrier, or enormous resource constraints. These financial resources are widely available within even the smallest of commercial enterprises around the globe. Moving the scale of operations to the mass destruction level with chemical, biological, or nuclear weapons would require an enormously more impressive commitment. Certainly the terrorists could not have easily purchased four Boeing 757s, but even purchasing first class tickets on those owned by American and United Airlines was a quite inexpensive way of commandeering a missile loaded with jet fuel that is capable of going just shy of the speed of sound. Estimates of what the initial preparations may have costs vary widely, but few doubt that the operation costs as little as half a million dollars. Even if you were to accord the terrorists a substantial wage over their entire training and operational phase, this total would not increase substantially. The attack is always less expensive than effective defense, a lesson learned frequently in the history of warfare.

In 2000, the U.S spent about \$25 billion combating terrorism. However, most of this was devoted to the fight against chemical and biological weapons, the protection of U.S. embassies and military facilities around the world, and for the computer/telecommunications monitoring of electronic communications by the Echelon system. These three priorities, however important they may ultimately prove, did not turn out to be very useful in avoiding the attack on 9/11. However, as recently as May 2001, the National Defense Panel highlighted the vulnerability of American soil to terrorist attack noting that the US was in a delicate situation owing in part to the change of Presidents and the difficulty it faced in implementing new policies to fight terrorism. The National Security Presidential Directive of May 12 2001 (I can find no documentation of such a directive, Jacques. I had this information from the US Embassy in France. I'll try to find

the exact reference) tasked the Director of the Central Intelligence Agency to produce an audit of antiterrorism intelligence and warning with an eye toward elimination of bureaucratic competition that was perceived to be hindering the collection of timely intelligence. At the same time, the National Security Agency was in the uncharacteristic spotlight—owing in part to some highly publicized computer failures—from the U.S. Senate, which claimed that NSA reorganization was one of its top priorities. Today in 2002, the U.S. devotes at least \$45B to the fight against terrorism a figure that is approximately 50% more than the entire defense spending of France.

The short summary is that a lot was spent to prevent an attack that was financed with relatively modest resources.

1.2. the costs of the destruction on 9/11

According to the estimates of the forecasting group Macroeconomic Advisors, the 9/11 attack destroyed about 13 billion dollars of private and public capital.⁶ The towers themselves were estimated at approximately \$2B, along with several important art works which resided in the complex (reportedly 20 Rodin and one van Gogh disappeared into the rubble now known as “ground zero.” In addition, one would have to include the hefty cost of rebuilding the Pentagon, and various other public infrastructures such as roads and subways. Finally, the substantial costs of rescue and reclamation of the sites themselves will dwarf what was spent in planning these attacks.

The attack brought about the death of approximately 3300⁷ persons, an enormous number of civilian casualties for a country not at war.⁸ Through a very generous outpouring of charity, the parents of each person killed in these attacks in New York have been estimated to receive between one and two million dollars. Although breaking these monies free from the various bureaucracies has been a tortuously slow process, and it is not clear that these estimates will be met, approximately six billion dollars appear to have been raised for these purposes.⁹ This amount will be reduced by life insurance and pension fund payments. This sum should be calculated in terms of the loss of purchasing power of the victims, however, and the opportunity costs of their foregone earnings and contributions to the economy. Indeed one might one to control for the various ages of the victims, as well as the costs incurred by those injured but not killed. Initial payments toward these amounts were offered (\$50,000 for deaths and \$25,000 for seriously wounded) in exchange for which liability waivers against the federal government as well as United and American Airlines were sought. In addition to these costs, it is virtually impossible to quantify the impact that the attack had on all of the companies which did business in or with clients in the actual towers. Even the cessation of flights for a single day is estimated to

⁶ Baily, M.N. (2001), Economic Policy following the terrorist attacks, Institute for International Economics, Number PB01-10, October, p. 2.

⁷ Initial guesses during the attack itself were as high as 20,000, but subsequently fell to around 7000 for several weeks. Once most of the dust had settled in lower Manhattan, the casualty figures dropped to about 3300.

withdraw about \$1B in activity from the gross national product (assuming of course that the flights are not rescheduled later). Indeed, it seems quite likely that the additional costs for airline security will exceed \$1B per annum for the foreseeable future. It should be added that, in spite of the assistances immediately provided by the federal government (undoubtedly at least \$40 billion dollars), the airlines did lay off approximately 100,000 employees. Doubtless many of these may have faced the same fate, but the attack precipitated a quick downsizing by the airline industry. The insurance industry will face high costs and have already changed policies to exclude terrorism as well as raised rates substantially, but these will be mitigated by a ruling that the attack was an act of war, rendering insurance companies largely untouchable for the costs of the destruction to life and property.

As a rough estimate of the financial cost of having work grind to a stop in New York City for about a week is about \$10B, excluding the impact on the prices of equities as markets adjusted to these new conditions. In addition, one must take into account some of the immediate reduction in activities in New York as a result of a broad gauged psychological impact. While American reached out to help each other in this time, they also stayed home and consumed considerably less and in a more home oriented fashion—a phenomenon dubbed “cocooning”. These reductions have been estimated to reduce economic activity in the U.S. by about one third of a percent of GDP, some \$30B. The forecasting firm Macroeconomic Advisers estimates the reduction to be about \$24B during the third quarter alone. This is staggering if one considers that the attack occurred only three weeks before the end of the third quarter. It seems likely that the actual sums will turn out to be larger than the estimated amounts. Psychological shock may magnify, but even if it doesn't, the increase in uncertainty will lead to more conservative behaviors by consumers and business leaders alike. Such “wait and see” attitudes are rarely favorable for entrepreneurship or for economic recovery. Even if there are no other indirect effects, it is clear that this operation will exceed a cost of \$80B, or about 0.8% of the GDP of the largest single economy in the history of the world. From a psychological point of view, it is difficult to know the exact consequences on the national economy. Some will seek opportunities and demonstrate great confidence in the resilience of the U.S. economy, and indeed the equity markets have shown a marked run-up after the dust settled and the calendar read 2002, not 2001.

As in any economic analysis it is necessary to distinguish between stock and flows. The destruction of the towers is certainly a loss of wealth. The World Trade Center represented approximately 10 percent of the office space in Manhattan. The question is to know what will be done to address this loss. Will a virtual replacement occur as new towers are built? Will office space not be replaced in Manhattan as companies seek permanent homes outside of Manhattan, or even outside of New York and the United States? Economic agents will modify their behavior to create as well as respond to these responses. Will savings been augmented to face new uncertainties? Will consumption be enhanced to take into account the effect of the psychological effect of curtailing the shadow of the future? Unfortunately, the realm of economics tells us little about which choices are more likely to be made by whom in these situations.

Certain consequences of the terrorism are more positive in the short to medium term. The commercial deficit of the United States was considerably reduced in September, as a result of the weakening national economy and the substantial level of anticipated and received payments by foreign insurance companies. As a result the deficit in service imports was reduced from about

\$18B in August to about \$5B in September, reflecting a surplus of \$11B in insurance and a reduction in travel spending. In total the commercial deficit went from about \$28B in August to about \$18B one short month later. These numbers illustrate the importance of the economic shocks that were precipitated by the terrorist attack. The real issue, however, is not the shock itself, but to know whether this situation is temporary or more persistent. In addition the commercial real estate and development industry will certainly benefit from the reconstruction of parts of lower Manhattan destroyed in or affected by the 9/11 attack. Realtors are also likely to be in a position to benefit from the many new transactions that will be necessary to establish some sort of quasi-equilibrium in New York City's office space situation. But at the same time, these costs must be paid by other businesses and individuals. Finally, in the area of national defense, it seems clear that budgets will be easily increased. On January 10 2002 President George W. Bush signed a new defense authorization bill for \$318B. It is expected that future budgets will be constructed to reflect a more coherent response to the exposed threats and less toward the traditional lobbying typically oriented toward a Cold War military posture. {This is really a good point. I hope it is true!}

1.3. Indirect costs of the 9/11 attack

The cost of the war in Afghanistan has been the object of many cost and policy evaluations.¹⁰ To date the bombardments have been less extensive and costly than earlier air wars, such as in the campaign against Iraq in 1991. The conflict costs about \$40-50 million dollars each day, a total of about \$5B by the beginning of 2002. Additional costs will be added when both fixed and variable costs are accounted for, including the replacement of weapons and extra operation and training costs. Indeed, in January not only was a Global Hawk lost, but a U.S. KC-130 refueling transport plane also crashed during a refueling mission in Pakistan. Doubtless other losses will occur as this campaign continues. In addition, intelligence costs—quite apart from the multimillion dollar rewards offered for Al Qaida and Taliban leaders—will also need to be augmented dramatically.¹¹

The general costs of security are already being dramatically augmented, both in the public and private sector. If the norms of airline security of the industry leader, El Al, are applied to all airlines, it has been estimated that the costs of tickets will be increased by at least 5 percent. This kind of security does not scale up very easily and is likely to reduce some of the economies of scales that the airline and travel industries have enjoyed recently. At the same time, private firms have also increased their own security forces; at least some major U.S. corporations are known to have doubled their internal security forces during the last quarter of 2001. Of course, it will be necessary to provide economic and especially military assistance directly to the new regime in Afghanistan; this has been estimated to cost between \$5-6B for the next several years. In

¹⁰ The battle against the Taliban is first and foremost a search for a new regime to replace those deposed. Similar difficulties, which are likely to appear more in the long than short-term will face the war on terrorism in other countries as well, most plausibly of course the regime of Saddam Hussein in Iraq, but including Yemen, Somalia, among others.

¹¹ Baily, M.N. (2001) Economic Policy following the terrorist attacks, Institute for International Economics, Number PB01-10, October, p. 8.

addition, more than 100 governments around the world have promised assistance and support to Washington in its war on terrorism. Undoubtedly some of this assistance will also entail financial costs. Some of these are already apparent, but many more are likely to surface in the near term future. Indeed Washington has lifted the sanctions against Pakistani nuclear tests imposed in 1998 and has agreed to a rescheduling of approximately \$375M of Pakistani debt. And to preserve some semblance of balance in South Asia, a similar understanding was reached with Pakistan's neighbor, India.

In a curious way the attacks on the U.S. helped to reconfigure U.S.—Russian diplomacy. As a result, the U.S. will also play a greater role in supporting Russia, economically as well as diplomatically. And China will have its say in the dialogue with the Americans about politics in South as well as North Asia. The calculation of the political costs in these new realities are likely to be offset by the great opportunities for new advances that they present, but the calculation of the economic costs of new cooperation is difficult, because many of these endeavors are likely to be beneficial in the long run for everyone concerned. With the support of its allies, Russia and even most of the Arab and Islamic states, the U.S. convinced the United Nations to pass resolution 1373 to foster nonmilitary cooperation in ending state-supported terrorism, even justifying military operations against terrorist groups and their patron states, wherever identified military operations must be limited to the terrorist groups and the states which support them.

2. The Long Term Economic Consequences of the 9/11 Attack

The attacks did however worsen the risks and the depth of the current U.S. recession and threaten to spread it world wide. In addition, it is clear that they will lead contemporary politicians and decision makers to a new slate of budgetary and policy choices. Finally, intelligence and warning, as well as newly discovered as well as traditional national security functions will require new investments in the military and security missions in the U.S. as well as in many other countries. Hopefully, these new investments can be efficiently and productively made in support of a new suite of military strategies, jettisoning once and for all the legacy of the Cold War.

2.1. Aggravation of the recession

Even before the attack, the American economy had slipped by the end of 2000 into a recession with a reduction in industrial production of about 4.2 percent, an increase in unemployment of by about 600,000, and recognizable contraction in new jobs, reductions in some work benefits by some 15 percent. In addition there was a fairly drastic reduction in investment, especially capital goods which fell by about 5 percent. Even air traffic was already falling by the time of the attack. The effects of the attack on a weakening U.S. economy are already incontestable. Initial estimates suggest that GDP was reduced by about 0.6 percent during the last quarter of 2001. The terrorist attack aggravated an already deteriorating economic situation. First and foremost, the federal government began a substantial rearmament to fight the war on terrorism as well as began several costly programs to provide aid to sectors, enterprises, and individuals

which found themselves in economically difficult situations by the end of 2001. Clearly safety requirements will increase the costs of transportation of individuals as well as goods; tourism revenues are estimated to fall by about 25 percent during the first quarter of 2002. In short the economy will be further slowed down by prudent but costly responses to the new situation. With a slowing economy, new investments will be made more cautiously (i.e., less frequently). Finally the world economic situation is itself not likely to bolster the U.S. economy. Speculation in world energy markets and energy more generally seems to be the order of the day. Not only has ENRON—once the darling of the U.S. energy corporations—gone belly up, but so too has Argentina. These many forces are likely to cause further deterioration in the global economic situation.

Immediately after the attack, Washington spent \$20 billion each for additional military operations and emergency response in New York and Washington D.C. By the dawn of 2002 approximately \$55B had been spent by the U.S. federal government, including substantial subventions to the airline industry. The stimulus package currently stuck in a Senate controlled by the Democratic party, is likely to run at least \$100B for programs to aid unemployed Americans and in tax reductions to stimulate consumption as well as business investment. For James Galbraith¹² this Keynesian inspired economic policy is likely to result in a more severe recession and a diminution of tax revenues. Ironically, the major debates of macroeconomic policy in the 1960s in the U.S. are being replayed. Galbraith, and many on the left, feel that the economic problems need to be attacked from the demand, not the supply side. Looking to stabilize the unemployment rate, debt accumulation, and maintain the value of the dollar as well as the current level of exports, a growth in GDP of about 6 percent would be required. Galbraith and others believe that this can only be accomplished via public spending programs. The right believes that a tax cut will provide a better path to this level of economic expansion, both by putting more money in the hand of employed as well as unemployed Americans and by providing greater incentives for investors to reduce the large cash positions by investing in equities as well as new economic activities. The proposed reduction of corporate taxes has raised the hackle of many liberal commentators, though is widely supported by the business community. This has stimulated a newfound interest in examining the economic inequalities that characterize American society, a dialogue absent for at least the last decade. It may well be that in the face of a polity (and a Congress) divided almost evenly between Republicans and Democrats that even if they were the most economically efficacious policies—a point that Galbraith and others dispute—tax cuts will be sufficiently politically sensitive to be practically impossible to achieve. It is clear too that a reduction of consumption will be disastrous for the economy, and that a reduction of consumption can not easily be offset by government spending in today's economy.

On December 17, 2001 the Federal Reserve Board's Open Market Committee reduced interest rates, the 11th move during 2001 bringing the intended federal funds interest rate from six percent at the beginning of the year down to 1.75 percent at the end of the calendar year. For the most part, commentators from all parts of the political-economic spectrum agree that these reductions have had no direct visible immediate impact on the economic activity, nor on the price

¹² Galbraith, J. K. (2001) The War economy, Policy Notes, 2001/8 available at <http://www.levy.org/docs/pn/01-8.html> .

of equities. Of course, one doesn't know what would have happened without these policy moves, but in general it seems to the case that monetary policy is relatively ineffective during a period of war, and further moves seem especially unlikely for this reason as well as the fact that real interest rates are approaching a minimum level. In fact, this new crisis also raises the question of the efficiency of the current floating exchange system. With the development of the Euro, the return of rates to fixed, but adjustable exchanges based on multilateral reserve funds is widely anticipated to lead to a decline in the value of the dollar. However, the Euro has disappointed before, and the immediate future is unclear in this regard. The economic shock induced by the 9/11 attack will lead to a set of re-examinations of the potential weaknesses as well as strengths of the U.S. economy. Not only did they affect the financial markets, reducing the access of newly emerging and developing countries to funds, but the impacts were not only on the pillars of western economic strength. In response, the International Monetary Fund, with the assistance of multilateral development banks, export credit banks, and the Club of Paris, have developed a plan to reduce the negative effects of the attacks on the global economy.¹³ A new round of trade negotiations has also been proposed to help further the opening of markets around the globe. The liberal solution, stalled in the U.S., is in motion already around the world. {This last sentence seems unnecessary and untrue. You have to think that one of the solution to terrorism is the opening of markets around the world. With the WTO memberships candidature of China and Russia, this solution is more and more developed in the world. Then, I am not sure at all that this solution will have good results, but it is a constant idea developed by USA as a partial solution of terrorism.}

2.2. New budget choices

After a quarter century of accumulating deficits, the American federal budget finished the century with a surplus. In May 2001, official projects all estimated that the accumulated U.S. national debt would easily be eliminated within a decade. However, this situation began to deteriorate during the summer, even before September 11, 2001, owing in part to the decline in economic activity and the attendant reduction in tax revenues. A combination of reduced taxes, slowing economic productivity, and a reduction in discretionary spending led to a reduced optimism by the beginning of autumn, 2001. The hoped for surplus of over two trillion dollars was replaced with estimated budget deficits for the foreseeable future, returning the U.S. federal spending to deficit spending.¹⁴ The tax surplus of 2001 will fall from \$275B to about \$121B and talks of retiring two and one-half trillion dollars of national debt (ignoring the three trillion dollars drawn from Social Security) has been replaced by discussion of some \$50B dollars. Terrorism is only partly responsible for these changed economic realities. Whether caused by tax rates that are too high (as suggested by many) or too low (suggested by the rest), it is clear that tax revenues will fall and put the surplus financing of the U.S. government in jeopardy.

¹³ FMI Bulletin (2001), La communauté internationale mobilisée face au terrorisme, Volume 30, n° 20, 29 octobre; p. 3265-327.

¹⁴ Gale, W., Orszag, P., Sperling, G. (2001). The changing budget outlook: causes and implications, Analysis Paper, 8, America's response to terrorism, October 11, Brookings Institution.

U.S. military strategy—even before the terrorist attacks of 9/11—suffered three weaknesses. First the nuclear threat has not been completely eliminated, despite the enormous progress made in this area since 1985.¹⁵ Second, some potential conflicts—and especially those which related to global terrorism—were poorly understood and planned for. Finally, strategy was unconcerned with an actual defense of U.S. territory, either abroad or at home. In 1999, the aggressive policies of Iraq or North Korea, the flow of dangerous technologies ranging from cryptography to weapons of mass destruction, the mounting activities of drug cartels and their beneficiaries, as well as the collapse governments as well as order in some parts of the world (for example Somalia) all represented new realities that were poorly addressed by strategic policy. The so-called Revolution in Military Affairs (RMA) had been developed in part to respond to security threats by more effectively utilizing technology such as Global Positioning (GPS) and unmanned surveillance aircraft. Yet, despite considerable evolution and technological development, military strategy itself was still in major ways wedded to the idea of more traditional warfare; not exactly pushing tanks through the Fulda Pass, but not far from it.

Once it was decided to wage war on a terrorist enemy that was multi-state sponsored, but not a state itself, it became necessary to expand the scope of military strategy to include the economic bases of terrorism. In more conventional wars, military conflict almost necessarily attacks the economic bases of the enemy, but it was possible to destroy every terrorist training camp in Afghanistan without disrupting the ability of the Al-Qaida or Taliban to conduct poorly concealed operations against many western targets in Europe (such as the bombing of the munitions factory in Toulouse) and elsewhere around the world. Indeed, U.S. missiles launched during the Clinton administration did in fact destroy some training camps in Afghanistan, but did not prevent the operation against the Khobar Towers or the USS Cole on 12 October 2000, nor even delay—evidently—the WTC attack of 9/11. So to properly wage war on terrorism, it will certainly be necessary to destroy the financial networks that support them. Much has been accomplished already, but much undoubtedly remains. As early as November 2001, U.S. Treasury Secretary Paul O'Neill announced the blocking of approximately \$24 million in assets in the U.S. that belonged to organizations and individuals associated with Al Qaida. By January 2002, the list of organizations and individuals with frozen or seized assets had grown to approximately twenty-three printed pages. The U.S. has not been alone in this effort as several money center nations have also seized or frozen many assets. Canada, Luxembourg, Hong Kong, the United Kingdom, and the United Arab Emirates have seized frozen many accounts, and have for example effectively shut down the al Barakaat network. According to a U.S. Treasury press release on 9/1/2002: “The President signed Executive Order 13224 on September 23, 2001. To date, the US Government has named 168 organizations and individuals as financiers of terrorism, and has blocked \$34.2 million. Our coalition partners have blocked another \$33.9 million. 196 nations have expressed support to disrupt terrorist financing and 144 nations have blocking orders in force.”¹⁶ In short, one needs to think of the U.S. Treasury as an important part of the U.S. campaign against

¹⁵ Currently the U.S. and Russia each have approximately 1100-1200 deployed ICBMs (including SLBMs and Heavy Bombers), down almost 45% from the levels in 1994, as a result of the START treaty reductions. At its height there were about 70,000 nuclear warheads in the world (1986); today, for example, the United States holds approximately 6000. Thus, nuclear weapons stockpiles have been drastically pruned.

¹⁶ Available at <http://www.treas.gov/press/releases/po909.htm> .

Al Qaida and terrorism more generally. This new reality will not recede, once its importance is clearly felt.

To undertake this economic and financial campaign, the U.S. recognized the need to have a multilateral effort. The assistance of the United Nations in putting this on the world's official agenda succeeded in helping to establish a coordinated plan to pursue and confiscate funds that were used to directly or indirectly fund terrorist activities.¹⁷ The global response will need to address a larger conceptualization of transnational criminality, including drug traffic, money laundering, as well as the trafficking in materiel and technologies useful in the production and transport of nuclear, biological, and chemical weapons. For Rudolph Giuliani, former mayor of New York and anointed "Mayor of America", it is necessary that the United Nations, not just the United States, guarantee peace in part by sanctioning states that explicitly or implicitly support or encourage terrorist activities.¹⁸ In this regard, the global financial system is now a prime mechanism of the war on terrorism, and has transcended some of its economic functions in becoming an aspect of military strategy.

Before the terrorist attacks, inter-service budget battles helped to limit the realms of U.S. military spending, by shaping the overall budget in ways that protected ongoing projects. These budget battles resulted in a budget that was changed in largely incremental and marginal ways, which preserved the primary missions of each service without major modification. The Army, Air Force, and Navy each pushed projects that would protect and extend their traditional mission, but did not especially respond to newer realities. Thus, the innovation that was promoted by the old budget battles tended to be technological, but not strategic. This situation changed on 9/11.

The post 9/11 strategic assessments require several strategic initiatives and imply different force structures and financing. Some important desiderata include the following points:

1. It is necessary to begin a program to reinforce the defense of the American homeland, in particular its border crossing points. This implies surveillance and monitoring of aircraft, airports, industrial facilities, immigration, and visas—all as matters of national security. Intelligence and warning capacities will need to be put in place or vastly improved where they currently exist. These new initiatives will not necessarily overlap the extant interests and abilities of the current heavy weights of the military industrial complex. Since the attack, a quasi-Ministry has been created and assigned the responsibility for "homeland defense." However as yet, this ministry has no budget authority despite the fact that this is one of the highest current defense priorities. In some way each service could be subsumed under these homeland priorities. For example, the Marines could be re-conceptualized as an anti-terrorist brigade capable of world wide as well as internal deployment. At the same time, the next attack might easily be in a different realm, such as a cyber-attack. Certainly the military is not ready to deal with denial of service attacks at present, but should this be a priority as it relates to national defense in the United States and other highly industrialized (even post industrialized) economies?¹⁹ The internet is a

¹⁷ On the 28th of September 2001 the UN Security Council unanimously condemned terrorism and demanded that each of the UN's 189 member states formally engage in the battle against global terrorism.

¹⁸ IMF Bulletin (2001), La communauté internationale mobilisée face au terrorisme, Volume 30, n° 20, 29 octobre, p. 329.

¹⁹ Houle, K.J., Weaver, G.M. (2001), Trends in denial of service attack technology, CERT, Coordination Center, Carnegie Mellon University, October. Maier, T.W. (1999), Is U.S. ready for Cyberwarfare? *Insight*, April, 5-12.

broad open protocol that is available at very low cost to many, yet depended upon by most modernized organizations to an enormous degree. It is currently estimated that approximately \$10B is spent each year to enhance and protect against cyber-terrorism, but it is clear that more effective measures will be required in the future, measures which may in fact not only be more costly, but also have the effect of constraining commercial behavior at a fundamental level.

2. The collection human intelligence will certainly need to be enhanced, if current thinking is followed. Without a real on-the-ground intelligence presence in South Asia, for example, the U.S. has relied upon its relations with local intelligence forces and technology. In addition, it has resorted to the rather crude and seemingly ineffective setting of enormous bounties for information on known terrorists, especially bin Laden.
3. Today the typical military patten is the use of airpower initially, followed by the arrival of ground forces. Now, airpower effectively weakens and paralyzes the enemy. This permits surveillance and location of enemy command and control situations. Miniaturized and precision guided bombs now permit highly localized force application to effectively concentrate on military versus civilian structures. It is possible to destroy the terrorist buildings and command structures, yet it will be equally important in the long term to destroy the terrorist logic of war.
4. It is also important to assure that there are no safe harbors for terrorists, and if any are found that effective operations are launched to destroy them.
5. The United States should also support the creation of international coalitions that de-legitimize terrorist violence while at the same time protecting all the coalition from any terrorist retaliation. This is a tall order. Diplomacy has been the primary tool in this effort to date, but it is decidedly ineffective when dealing with terrorist factions or supporters. Perhaps an International Counter-Terrorist Court will serve to further this goal. For Europe, Article 5 of the Washington Treaty²⁰ raised the question of whether defense pacts can be used in the current situation. Indeed, NATO unanimously agreed to this principle.
6. When economic sanctions have been applied to countries, they often have been more painful for the population than for the leaders. However, when applied thoroughly to groups, the result may in fact be better.²¹ {look up the Huf and Bauer stuff.} In 1998 President Clinton requested the seizure and freezing of the assets of bin Laden and associates, including twelve organizations in the Middle East and some eighteen

²⁰ To wit: “*The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defence recognised by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.*”

²¹ For a classic statement on the effectiveness of embargos see Daniel Drezner’s *The Sanctions Paradox: Economic Statecraft and International Relations* (New York: Cambridge University Press, 1999). See also Gary C. Hufbauer, Jeffrey Shott, and Ann Elliott. *Economic Sanctions Reconsidered* (1990 Washington, D.C.: Institute for International Economics).

7. At the same time, the essential markets for the materiel of national security, especially petroleum must be safeguarded and kept open.
8. Finally, it must be remembered that military force must sometimes actually be deployed. Threats and diplomacy generally are more effective with symmetric forces. Where there is a great asymmetry, diplomacy may be—in fact—less effective. This was the case with Libya and Iraq. And it was the case with Afghanistan. But this harsh reality does not pass without important difficulties, including reprisals, collateral damage, and the sympathy accorded to the enemies as a result of the suffering inflicted upon them, however justly. Indeed, it is preferable to speak of acts of war. But terrorism is a political war for which a purely military solution is an insufficient part of its resolution.

It is, however, necessary to take into account the dilemma between the need to establish national security—in the sense of safety—and the battle against attacks against one's country. These attacks are not just destructive of people and buildings, but attacks on personal freedom, the capitalist economic system, and democratic governance as well. Creation of an enduring international regime, led perhaps by the United States, but inclusive of many others, is likely to further support the resilience of these values and ways of life.

3. Engaged policies, or impossible calculations

The policies undertaken by states against contemporary terrorism will convey an important set of geopolitical modifications affecting life in the 21st century. Many urgent problems deserve further study, such as the concept of war against a concept of terrorism, the question of the role of petroleum in the geopolitical cocktail, the general battle to reduce poverty and insecurity, the maintenance of the capitalist economic system, and the expansion of democracy.

3.1. The war against global terrorism

With the arrival of George Bush as president, the United States grew visibly more isolated, listening less to the external world in terms of ecological, as well as national security issues. Instead, U.S. national security issues were thrust to the forefront, and coalition politics played, initially, a substantially reduced role. This was evident in Bushes' policy on environmental issues as well as on a missile defense system. Even before the Bush administration took power, the United States threatened to sanction countries which invested in rogue policies, such as Cuba, Iran or Libya and at the same time refused to ratify in 1999 the complete prohibition of the nuclear tests. They also refused to join their European allies in Bosnia. Whereas Russia began to move closer to many of the policy prescriptions of the United States during the Bush administration, China had become a serious strategic rival and less protected in this regard than during the Clinton administration. The Organization of Co-operation of Shanghai (April 1996) gathers together China, Russia, Kazakhstan, Kirghizistan and Tajikistani, to promote economic development as well as the stability and the safety of the partner countries in combating drug trafficking, terrorism, separatism, and the domestic political extremism. Serious political agreement that does not necessarily include Washington is often viewed as troubling in the White House and State Department at the same time that Washington was pursuing a fairly isolationist policy. This ended pretty decisively after the attacks on 9/11.

The G-20²² supports the conclusions of the Financial Action Force on Money Laundering. This has resulted in the freezing of many terrorist accounts, collaboration and cooperation among principal international banking institutions to defeat serious abuses of the system, creation of a Transnational Convention against Transnational Organized Crime, as well as a step level increase in the exchange of information and intelligence. At the same time, this group will also provide reports to the United Nations Committee against Terrorism. In the same manner, the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund has acted to ensure that IMF members set up monitoring of potential terrorist activities within their borders and institutions. The basic goal of these many new programs is to seize control of terrorist financing wherever it is found and to accelerate programs that deal with the potential loopholes in the international financial system that are provided by, for example, existing off-shore banking systems. Further the programs will establish

²² In addition to the IMF and the World Bank, the representative countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.

and provide technical assistance and the dissemination of pertinent intelligence and information to help achieve these goals.

Lastly, with the development of private armed forces by the drug cartel as well as the development of a global mercenary force, the “privatization” of war, even beyond that already seen in the 9/11 attacks is a considerable danger today, in large part because these organizational mechanisms are difficult to put in place in advance of the outbreak of conflict. It may be that the new initiatives and organizational structures put in place to combat “terrorism” will also be useful in a wider realm of potential activities—or simply that a wider range of activities will be defined as terrorism—but these types of prevention and sanctions are not trivial to effectively implement. They are also costly in the short run, even if their long term payoff in terms of liberty is assured.

As yet we have not seen a financial commitment that will deal with these broader threat assessments. But for many, American military expenditure should be modified to take account of these new threats. During the Cold war, the United States spent about 7.5 % of the GDP to fund the military. Today, that relative expenditure level is about three percent. While growing military budgets will be controversial in some quarters, it seems clear that increased military spending is not only affordable for the United States, but may in fact be necessary to face these threats. In the longer run, it is easy to see that it might be much more expensive *not* to be well armed to face the coming wars.²³ Indeed, it may well be that the budgets of other, non-military U.S. governmental agencies, ranging the gamut from the Central Intelligence Agency to the Departments of Interior and Treasury, will be augmented significantly in order to address these security concerns. Whether this will count as “military expenditures” or not is fairly irrelevant to the issue of national and international security.

3.2. The petroleum question

Contemporary terrorist attacks frequently raise the crucial question of the world energy market, despite the fact that the list of major oil producers has markedly changed since the formation of the Organization of Petroleum Exporting Countries in 1970.²⁴ OPEC countries still control approximately forty percent of global petroleum production and also are fairly effective in determining the spot price for crude petroleum. In spite of this, oil prices are not immune to other forces in the global economy. Despite attempts to keep prices up, they have fallen pretty substantially since 1980 when oil was \$38 per barrel which would be approximately \$78 in 2001 prices, far above current price levels. February crude prices on the New York Mercantile Market are at just over \$20 per barrel. Many non-OPEC members are substantial producers as well as exporters of petroleum. Even if—for example—Russia has only half the oil production of the former Soviet Union, it is still the second largest petroleum exporter in the world. On the other hand, the share of American oil production has fallen from about one-quarter of the world total in 1970 to a bit more than 10 percent in 2001. The upshot of this, during a period of rapid economic

²³ Thompson, L.B. (1999). “Military supremacy and how to keep it”, *Policy Review*, October and November, p. 36.

²⁴ Current members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela, although membership is open to any net exporter of petroleum.

expansion for the U.S., has been a dramatic growth in energy imports. By June of 2001, U.S. energy imports were about 12 million barrels per day.

The immediate effect of the 9/11 attack was to damage the world economy, but surprisingly to bring about a reduction in the price of petroleum. If the attack amplifies and/or extends the current mild recession, it is likely to also depress demand and reduce consumption by individuals and firms. A classic scenario is that in this kind of scenario, OPEC will reduce oil production, and the price of energy will be driven skyward. If however, non-OPEC oil exporters maintain or increase capacity, energy prices may actually fall. In any case the capacity of OPEC—at least on paper—is substantial. It is reported (WHERE?) that bin Laden has proposed that the price of a barrel of crude petroleum be set at \$144 per barrel. If this were to occur, non-OPEC states might react to counter this. Suppose bin Laden had succeeded in capturing the Saudi government instead of that in Afghanistan (and possibly Sudan previously). If through strong market intervention by a co-opted or coerced Saudi regime, 20 million barrels of oil were withdrawn from the global energy market and prices did rise to the \$150 per barrel level, it seems clear that the United States, as well as Europe and Japan, would be so strongly affected that military actions would be quickly readied.

The United States imports nearly 4 billion barrels of petroleum each year. Despite strong anti-American feelings in many oil exporting nations, an oil crisis does not seem very likely, given the strength of non-OPEC oil production and the strong likelihood of increased U.S. domestic production. Yet, it is undeniable that Arab and Islamic oil producers continue to present potential sources of global economic instability. Though the current war on terrorism is not really about petroleum, it touches close enough to these strategic areas that a prudent strategy may well to be prepared in case it does.

3.3. The international aid for the poor countries an the international confidence

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Conclusion

The strategic goal of the 9/11 terrorist attack on America was to destroy the hegemonic aura of the United States and to demonstrate that the U.S. government could be defeated by smaller organizations of highly motivated individuals.²⁵ To accomplish this it was necessary to

²⁵ U.S. Institute of Peace (2001), Coping with terrorism: the challenge of political warfare, Newsbyte, 27 September.

demonstrate the vulnerability of the American homeland to attack. At the same time it sought to undercut the credibility of U.S. foreign policy in the Middle East and the Islamic world and in so doing to reinforce the power of terrorist factions within the political and religious movements in the Islamic world. Few terrorist groups were capable of mounting such a campaign, however many would have signed on to such a goal.

Terrorism is born out of misery and exclusion, however wealthy and well connected bin Laden may be. It is clear that the people of Afghanistan will benefit from increased wealth, better and more modernized living conditions, reduced insecurities, as well as increased and wide spread education. To say that public health—in all its dimensions—and human security {footnote to Harvard program} can be dramatically enhanced in Afghanistan is to state the obvious. Indeed one of the greatest {number of deaths is below 3000 now} crimes of the Al Qaida and Taliban coalition was committed on the people of Afghanistan, where more people will certainly die as a result of public health concerns than were killed in New York city during the attacks. To be sure, enhanced public health in the broad meaning of the term will not always be sufficient to combat fanaticism, but it will certainly diminish the level of support that fanatics receive from impoverished and desperate individuals, living on the edge of survival. It is also clear that Afghanistan has been at war for over twenty years, including the battle against the Soviet Union. As the images of Kabul were broadcast in the closing months of 2001 over global television, the modernized world learned of the level of destruction that constitutes contemporary Afghanistan. Twenty years of war against one global power and then another, interspersed with enormously destructive civil war among different tribal factions has created an untenable situation. With the war in Afghanistan largely completed, reconstruction must be a serious priority of the West as well as Afghans. In the same way that the country has been gripped by war for over two decades, it must now be gripped by a force for peace and development over the next twenty years. For U.S. Secretary of State Colin Powell, the principal weapon against future terrorism will be the global economy as it helps to locally develop impoverished regions of the world. From this perspective, the opium trade must be replaced with a viable set of local economic activities that tie into a prosperous world economy. Only this kind of shock treatment will defeat poverty and create the stable economic and social structures that can support a society in the 21st century.

At the same time that the economy is developed from scratch, work must be undertaken to safeguard personal and political freedom in Afghanistan, as well. Despite all its flaws, a democratic form of government has proven to be a successful arrangement to adjudicate social relations in many societies. Indeed, it is also a system of government that reinforces peaceful foreign policies. By some accounts there has never (yet) been a war between two mature democracies.²⁶

The security of the international system is built in part on a set of common laws and procedures. In creating an international framework that supports not only economic development and international commerce, but also personal freedom and political participation, a global public good is created that benefits everyone. The third cornerstone of this is the effecting functioning of those international organizations that support and facilitate these developments. This will

²⁶ See Bruce Russett and John Oneal's *Triangulating Peace* for a cogent statement of the so-called Democratic peace argument (2002, New York: W.W. Norton).

demand increased economic and political engagement by the United States—already evident—as well as many other countries around the globe. It may be that the United States now pursues some of these goals in its own interests, but it is also now clear that the broad goals will be supported by and benefit many other partners around the world. Russia, Britain, France, Germany, Spain, the United Arab Emirates, Pakistan, and many other countries have signed on to this basic agenda as a primary focus for global foreign policy in the decades to come.

Finally, it is clear that democracies are more vulnerable to terrorist attacks because in part democratic societies permit a high level of personal freedom. Individuals and organizations—even those that are disaffected—have greater freedom and latitude. In fact, they are also more likely to be targets of the disaffected since by and large citizens of democracies reside in countries that are much wealthier than non-democracies. Personal freedom promotes economic productivity and both promote public health and human rights. Personal and economic freedoms are both necessary, but not sufficient, tools in the fight against terrorism. In the end, they may be our most powerful weapons. It will be important to continue the expansion of these freedoms around the globe, while the same time establishing prudent and effective intelligence policies that will allow the continuation of the fight against contemporary terrorism, while permitting the growth of freedoms that will prevent future terrorism. In the end, the promotion of human rights and public safety has to be accompanied by compliance with certain collective rules, with the understanding that rules and norms which protect the individual can sometimes threaten the community.

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