

Economics of Conflict, War, and Peace

Prof. Dr. Jurgen Brauer; Summer 2009
Chulalongkorn University; Bangkok, Thailand

Session 3.3
Manpower: nonstate forces/terrorism

Administrative matters

- Group paper outline
 - Thai/nick names + student #
 - (1) **Research question (30%)**
 - The more specific, the better ("A"); the less specific, the worse ("F")
 - Discuss a little bit why **this** specific question, and not a related one, is of interest; give the reader a sense of why the reader should read the paper
 - F – "we discuss conflict diamonds" [so what?]
 - A – "There is a longstanding and animated debate regarding the use of private military forces by states. We examine the economic rationale and justification for the use of private military forces by states and show that private forces can be used efficiently and effectively in the pursuit of national security objectives."

Administrative matters

- Group paper outline
 - (2) **Likely data and data sources (50%)**
 - F – "we will get data"
 - D – "we will get inflation data"
 - C – "we get inflation data from the U.S. Bureau of Economic Analysis web site"
 - B – "we get inflation data from the U.S. Bureau of Economic Analysis web site here [put in the general link]"
 - A – "the inflation data we need are on this specific web site [link] at the U.S. Bureau of Economic Analysis"

Administrative matters

- Group paper outline
 - (3) Analysis (20%)
 - "We will use a general supply and demand framework to indicate movements in S/D and show the likely effects of ..."
 - "We will address the research question using the public, private, club, and common-resource pool good framework ..."
 - Then proceed to outline your current thinking on how the theory might work ...
 - Don't do the paper ... just outline the current question, likely data/source, and the overall theory approach
 - Can things change as you actually **DO** the paper? Of course (one can always run into unexpected problems when doing research) ... but I want evidence of you actually having **THOUGHT** about how you wish to approach your topic.

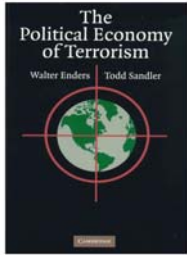
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- Nonstate forces include militia, irregular, rebel, guerilla, terrorist, and other types of forces
- To keep things manageable, sessions 3.3 and 3.4 deal with terrorism only
- Definition: "Terrorism is the premeditated use, or threat of use, of extra-normal violence or brutality to gain a political objective through intimidation or fear." (Sandler and Hartley. 1995. *The Economics of Defense*. Cambridge: Cambridge University Press, p. 308).
- Four elements in the definition:
 - The inducement of fear
 - The (threat of) use of extra-normal violence
 - The premeditated character of such violence
 - The political objective

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- Seven topics of econ of terrorism studies
 - (1) the measurement of terrorist activity
 - (2) the nature of terrorists
 - (3) the utility cost of terrorism
 - (4) the impact of terrorism on aggregate output
 - (5) terrorism and specific sectors of activity
 - (6) terrorism and economic policy, and
 - (7) counterterrorism

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- Outline
 - Some data
 - Initial model

Enders, W. and T. Sandler, *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006.

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Figure 2.5. Transnational terrorist incidents: 1968–2003. Source: US Department of State (1988–2004) and Sandler and Enders (2004).

Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 41.

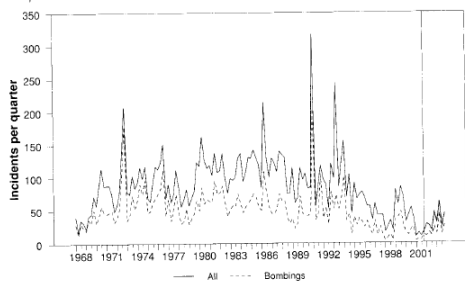
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Figure 2.6. Proportion of US transnational terrorist incidents: 1968–2003. Source: US Department of State (1988–2004) and Sandler and Enders (2004).

Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 42.

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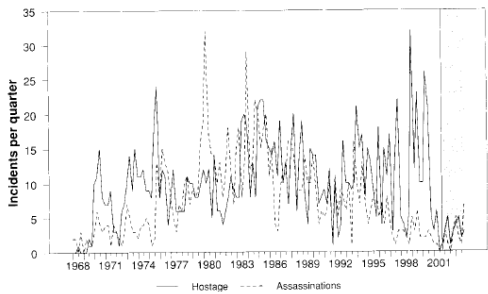
Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 61.

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Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 62.

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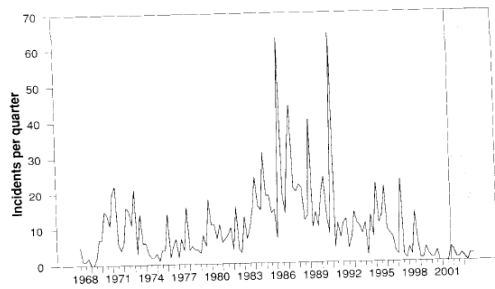


Figure 3.4. Threats and hoaxes.

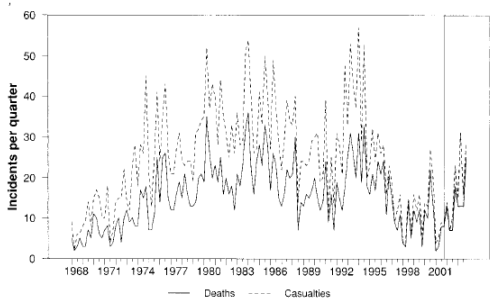
Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 64.

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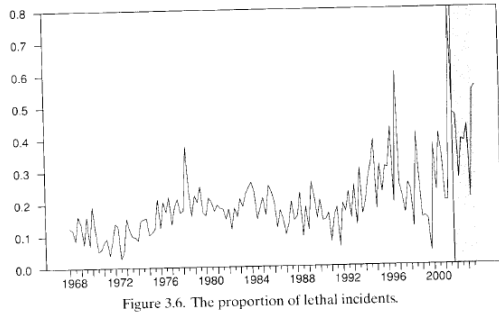
Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 66.

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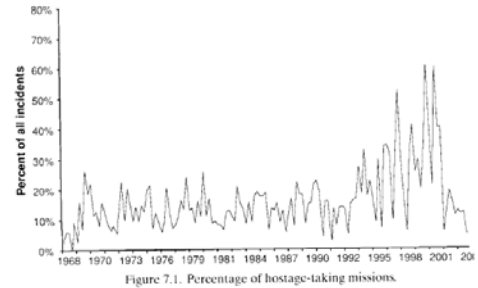
Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 66.

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Source: W. Enders and T. Sandler. *The Political Economy of Terrorism*. Cambridge, UK: Cambridge University Press, 2006, p. 164.

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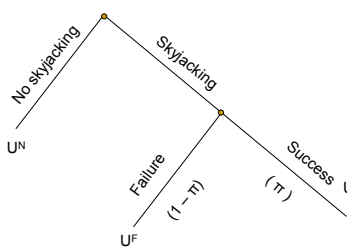
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- Economists analyze terror by assuming that terror organizations and their members are rational.
- What does "rational" mean?
 - Given their beliefs ("preferences")
 - ... terrorists choose
 - ... subject to constraints
- For example, consider the choice of whether or not to undertake a "skyjacking" action
- It is important to appreciate that there is a choice and that terrorists can decide to undertake a terror action (T), or can decide to undertake a nonterror action (NT)
- In fact, terror organizations usually produce both T and NT (media work; recruiting/training; etc.)

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U^N = utility of no skyjacking
 U^S = utility if successful
 U^F = utility if failure
 And π is a probability value

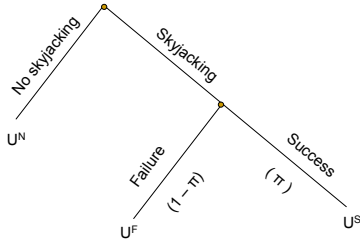
Then

$$EU^{sky} = \pi U^S + (1 - \pi) U^F,$$

where EU^{sky} is expected utility

If $U^N < EU^{sky} = \pi U^S + (1 - \pi) U^F$,
 then an attack will occur (and vice versa).

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$$U^N < EU^{sky} = \pi U^S + (1 - \pi) U^F.$$

■ Policy options

- Increase U^N or reduce EU^{sky}
 - Reduce U^S or increase U^F or reducing π
