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Reflections on Terrorism

Fifteen years ago, al Qaeda terrorists used commercial airplanes to attack the World Trade Center in New York and the Pentagon in Washington. Another aircraft crashed in rural Pennsylvania; it was believed to be en route for another attack but passengers on the plane prevented the terrorists from achieving their goal.

The events of 9/11/2001 were the deadliest terrorist attack in world history and the most devastating foreign attack on U.S. soil since Pearl Harbor. In the aftermath, the Bush administration launched a military incursion in Afghanistan when the Taliban, which controlled most of the country, refused to extradite Osama bin Laden, the leader of al Qaeda. A war against Iraq soon followed. The Patriot Act was passed in late October 2001, which gave security officials great leeway in monitoring Americans' communications. The Department of Homeland Security was established; several agencies were put under this cabinet-level body, including Customs and Border Protection, Immigration, the Coast Guard, the Secret Service and the Federal Emergency Management Agency. In addition, passenger air security was nationalized with the creation of the Transportation Security Administration.

Following 9/11, there was great fear at the time that additional attacks were almost certain as al Qaeda appeared to be a dangerous and formidable foe. Given the tenor of the times, a strong reaction was perfectly reasonable.

However, as time has passed, it does appear that 9/11 was an outlier. Although terrorist attacks remain rather frequent, nothing really compares to the events on that clear September morning. But now, a decade and a half later, the question of how to provide security against terrorism remains.

On several occasions, we have discussed 9/11 in Weekly Geopolitical Reports near the anniversary of the event. In light of the recent anniversary, we will discuss terrorism in this report, putting it into historical context. As always, we will conclude with the impact on financial and commodity markets.

Terrorism: A Look at the Numbers

The University of Maryland's program of the Study of Terrorism and Responses to Terrorism (START) has created a global database on terrorist activities. It describes a terrorist act as "the threatened or actual use of illegal force and violence by a non-state actor to attain a political, economic, religious, or social goal through fear, coercion, or intimidation."¹ To be included as an incident, the event must have these three characteristics:

1. The incident must be intentional; premeditation and calculation are necessary.
2. The incident must entail some violence or an immediate threat of violence.
3. The terrorists must not be state actors.²

¹<http://apps.start.umd.edu/gtd/downloads/dataset/Codebook.pdf>, page 9.

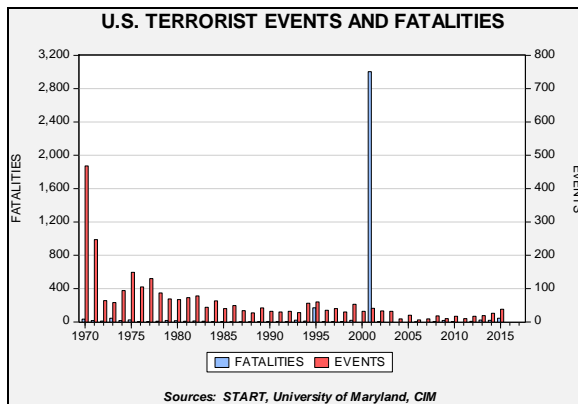
² Ibid, page 9.

In addition, it must meet two of the following three criteria:

1. The act must be aimed at attaining a political, economic, religious or social goal.
2. There must be evidence of an intention to coerce, intimidate or convey some other message to a larger audience than the immediate victims.
3. The action must be outside the context of legitimate warfare activities.³

In addition, the database treats events as separate if they occur in different parts of an area but are perpetrated by the same individual or group. Thus, 9/11 was comprised of four incidents, two in New York, one in Pennsylvania and one in Washington, D.C.

The chart below shows U.S. terrorist events per year along with the fatalities.



The attacks in 2001 are evident on the chart. So, it is no surprise that 9/11 has become such a seminal event in the American psyche. However, a further read of the data suggests that terrorist acts on U.S. soil are actually quite common. Note that there were a high number of terrorist events in the early 1970s. Most of these were either tied to opposition to the Vietnam War or racially

³ Ibid, page 9.

motivated. Since 1970, the START database shows that the median number of terrorist-related fatalities in the U.S. is 4.5 per year and the median number of events per year is 39.

The goal of terrorism is to terrorize a population and force a government to change its behavior. Most of the time, terrorist groups use this method because they lack the capacity to engage in full-scale military operations.⁴ In other words, terrorism is often viewed as a tactic deployed by the weak, but that doesn't mean terrorism isn't effective. Clearly, al Qaeda changed America's behavior. However, it didn't necessarily change U.S. behavior in a way that helped its cause. Al Qaeda has lost most of its leadership due to persistent strikes by the U.S. military. In many respects, al Qaeda has been overshadowed by Islamic State. On the other hand, one of al Qaeda's goals was to overthrow authoritarian regimes in the Middle East and replace them with nations that follow Islamic law. The current breakdown of Iraq and Syria may indeed foster that outcome.

It's probably best to think of 9/11 as an atypical event. Terrorist attacks against the U.S. are usually not that effective, as shown by the previous chart. If one divides deaths by events, the median number of deaths per terrorist event is 0.1. Thus, it would take about 10 terrorist acts to generate one fatality.

However, there are rare events that cause a large number of fatalities. Besides 9/11, the Murrah Federal building bombing in Oklahoma City in 1995 killed 168 people.

⁴ There are exceptions. Some terrorist groups are supported by other states as a proxy military against an enemy. In these cases, terrorism may be the chosen tool because the supporting government doesn't want to escalate the conflict.

Any government official facing a potential terrorist threat can't take much comfort in the thought that, statistically speaking, these events rarely cause a large number of fatalities. As a result, Western societies are willing to spend large amounts of money⁵ and undermine citizens' civil rights under the auspices of security. There is no shortage of reports showing the statistical likelihood of dying as a result of something other than terrorism.⁶ The Centers for Disease Control reports annually on causes of death.⁷ In 2013, for example, 22 people died in the U.S. due to terrorist incidents according to START. Heart disease claimed 611k lives in 2013, while accidents killed 131k and diabetes killed 76k.

However, these sorts of reports do miss the point. The randomness of terrorist attacks coupled with the willful behavior of terrorists are what raise our fears. We tend to believe that we have some degree of control over the more common things that end our lives. Perhaps a report of a marathoner dying of a heart attack is a shock, but being the victim of a random terrorist attack by flying on an airplane, meeting someone at a bar or simply going to work is, frankly, terrifying. Statistically, one shouldn't really worry about terrorist events; heart disease and accidents should worry us more. However, we believe we can avoid a heart attack through diet and exercise, and accidents by being careful. In

⁵ The budget for fiscal year 2016 for the Department of Homeland Security is \$64.9 bn. This does not include the costs of intelligence agencies, the FBI and local law enforcement, which are involved in investigating, responding to and/or preventing terrorism.

⁶ <http://theantimedia.org/10-things-more-likely-to-kill-you-than-islamic-terror/>

⁷ The latest year available is 2013. See: http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_02.pdf

reality, those notions are probably less true than we believe. But, since it seems less random, to some degree we are less demanding of the government to protect us from the usual fatal threats than we are with terrorism. Just because an event is rare doesn't mean it doesn't scare us. That is the goal of terrorism.

Living with the Threat

Perhaps the most troubling aspect of terrorism is that we don't believe the government can do enough to protect us. For example, after the truck attack in Nice, France, polls showed that 67% of French citizens had no confidence in the government's ability to protect them.⁸ Politicians are well aware of these feelings and thus are willing to go to extreme lengths to prove they can offer protection to the public. Not only are civil rights violated, but money is spent on what is probably best described as "security theater."⁹ Anyone going through airport security has likely quietly entertained such thoughts. Reports suggesting that testers routinely pass fake guns or bombs through TSA checkpoints raise these concerns; at the same time, watching the careful screening of shampoo bottles that must be less than 3.5 ounces can strike one as overly zealous.

In other words, billions of dollars are spent "protecting" us from potential terrorist threats which may not be all that significant compared to other, more pedestrian threats that are much more likely to end our lives. However, the sheer randomness of terrorist events is scary...as they are designed to be. So, if a bit of security theater is necessary to make us believe that we are safer, it's probably worth it as long as society

⁸<http://www.economist.com/news/international/21706250-people-are-surprisingly-good-coping-repeated-terrorist-attacks-america-and>

⁹ Ibid.

recognizes that the assets diverted to these dubious precautions to make us feel safe are not being spent on activities that may actually lower fatalities from more lethal threats.

Broader Worries

In looking at the START database, there is a plethora of terrorist organizations and inspirers. Religion, race, political leanings, foreign concerns and other groups can prompt terrorist acts. There can be a temptation to single out a group for special treatment because they seem “different.” Profiling can radicalize members of the targeted group and lead to additional terrorist acts. The data indicate that a large number of individuals and groups can bear a grievance against society and engage in terrorist activities. Simply containing one group won’t end the problem.

In fact, the problem won’t ever completely go away. But, professional law enforcement, which is the front line against terrorism, can go a long way to contain the damage. And, some degree of domestic intelligence is probably unavoidable. Realizing that no one can eliminate the tactic of terrorism means the focus can move to containing the threat.

In retrospect, al Qaeda’s attack on the U.S. on 9/11 was an anomaly. It’s unlikely it will ever happen again for two reasons. First, Flight 93 showed that once passengers realize their aircraft is being used as a weapon, the most logical response is to stop the terrorists because there may be a small chance that the act can be thwarted. Even if the most likely scenario is death, it’s better than risking the lives of others at the same time. The passengers who died on the planes that hit the World Trade Center Towers and the Pentagon could have reasonably expected that they were part of a

“garden variety” hijacking. The souls on Flight 93 realized that wasn’t the case and took the most logical steps in light of their situation. Second, now that governments realize that commercial aircraft can be used as weapons, they will be more likely to respond to a similar situation by downing the commercial plane. Although a hard decision for any leader, it makes sense that the government would consider shooting down an aircraft aimed at a building. That doesn’t mean that another massive terrorist attack isn’t possible—something involving nuclear or biological weapons is a worry—but it is unlikely that another one will occur using aircraft as weapons.

Ramifications

Markets tend to become inured to exogenous events that occur with frequency. Since 9/11, the market effects from subsequent terrorist attacks have become less severe. A good example of this pattern transpired over the weekend when two terrorist attacks occurred, a bombing in New York City and a series of stabbings in Minneapolis. The impact on financial markets was negligible. This pattern tends to weaken the effect of terrorist activity; unfortunately, it also suggests that terrorists need to engage in increasingly spectacular and damaging acts to get the market’s attention. Unfortunately for the terrorists, planning big events increases the likelihood of discovery, so we are observing an increase in “lone wolf” style events. In other words, terrorists are implementing small-scale attacks because security officials are getting better at discovering big ones. The Boston Marathon bombing and San Bernardino shooting were planned by a team of brothers and husband and wife, respectively. These events were dangerous and tragic but they pale in comparison to 9/11. These are the kind of threats we will most likely face going forward.

One other terrorism concern is the threat of cyberterrorism; not only is it damaging, but it is hard to determine the perpetrator. However, two factors have weakened the attractiveness of cyberattacks thus far. First, the lack of accountability means that the actual group may not get credit for the action and this generally undermines the motivating factors. It's hard to fear a group when you don't know they are attacking

you. Second, cyberattacks haven't led to the kind of "shock and awe" responses that terrorist events cause. Damage to property doesn't have the same capacity to terrorize a population, but that also doesn't mean cyberattacks won't have that capacity in the future.

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