

Federalism as an Effective Antidote to Terrorism

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Many governments as well as terrorist experts see the use of military and police forces as the only way to effectively counter terrorism. The most effective negative sanctions are considered to be military strikes, aggressive actions (including kidnapping and killing) against individuals known or suspected of being terrorists, or against persons supporting and harboring terrorists. Overt and covert military and paramilitary action is also thought advisable to pre-empt and prevent actions by terrorist groups, as well as against states suspected of hosting or tolerating terrorists. This paper argues that decentralization constitutes a powerful antidote as it strongly reduces the incentives for terrorists to attack and because the expected damage suffered is much smaller than in a centralized society. It moreover strengthens society, as economic, political and social decentralization (or polycentricity) is an essential element of a free and vigorous society. This in turn makes a society less vulnerable to terrorist attacks. Indeed, terrorism has no chance of success against a society that actively guards its fundamental liberal institutions, of which decentralized decision-making forms an essential part.

1. FAILURE OF DETERRENCE POLICY AGAINST TERRORISM

1.1. PREDOMINANCE OF COERCIVE RESPONSE

Governments may react to terrorism in different ways (see, e.g., Schmid and Crelinsten, 1993; Lesser et al., 1999). By far the prevailing response to terrorist attacks has been *coercive military counter-terrorism*. This holds, in particular, for today's single world power, the United States, but also for other nations such as Britain or Israel. Deterrence is not the same as using brute force (Schelling, 1966; Byman and Waxman, 2002). Deterrence involves the *threat* of damage to an adversary. It is most successful when it is not actually carried out. Deterrence leaves the opponent, in this case the terrorist group, the option to either desist from future violent actions or, if violence is chosen, to be made aware that costs will be imposed. A

counter-terrorist strategy that aims to kill terrorists under all circumstances belongs to a brute force strategy. But the difference between the two is not large because deterrence is only credible if it is sometimes used. Indeed, the idea of a deterrence strategy is to impose so great a cost on violence that terrorists find the expected return on the pursuit of their course no longer adequate.

Many governments as well as terrorist experts see the use of military and police forces as the only way to effectively counter terrorism. They abhor making what they consider to be "concessions" to terrorists and rely on threats of punishment. The most effective negative sanctions are considered to be military strikes, aggressive actions (including kidnapping and killing) against individuals known or suspected of being terrorists, or against persons supporting and harboring terrorists. Overt and covert military and paramilitary action is also thought advisable to pre-empt and prevent actions by terrorist groups as well as against states suspected of hosting or tolerating terrorists.

1.2. CONSEQUENCES OF DETERRENCE POLICY

1.2.1. Advantages

The potential benefits of an anti-terrorist policy built on the use of force have been widely publicized by those governments employing it and have been mentioned above. However, the benefits are difficult to isolate and even more difficult to measure, particularly because of possible indirect and long-term effects.¹ The basic problem is identifying how much worse off (if at all) the individuals would have been if a deterrence policy did not exist. To construct such a counterfactual situation is problematic, especially as long-run and macro-economic and macro-societal effects have to be taken into account.

1.2.2. Disadvantages

Some of the costs of employing a deterrence policy are readily apparent and measurable (Rathbone and Rowley 2002a,b).

The first are the *direct costs* for the country undertaking the deterrence policy.

Most obvious are the substantial *budgetary costs* involved in the prevention of a terrorist attack, such as border controls and the collection and interpretation of information by intelligence agencies. The more aggressive part of the deterrence policy relies on the military, police and the various secret services. The total number of employees involved and the precise budget costs are difficult or even impossible to identify because much of this information is not public knowledge. The overall budgetary cost of an anti-terrorist policy is certainly large.

¹ A survey on measuring the effects of terrorism is provided in Frey and Luechinger (2005) and Frey, Luechinger and Stutzer (2007, 2009).

A deterrence policy may produce *domestic political costs*. The question is to what extent and for how long the citizens are prepared to support such a policy. After some time, citizens become aware that the high costs of a deterrence policy displace other government expenditures from which they benefit more directly, say for health or retirement benefits.

By using force, a deterrence policy always runs the risk of resorting to repressive means. In the name of the "war on terrorism" *constitutional civil and human rights* may be undermined or completely suppressed (Chang, 2002; Cole and Dempsey, 2002). These concerns have been frequently discussed in connection with the anti-terrorist policy adopted by the United States and the United Kingdom after September 11, 2001 (see Sterba, 2003; Viscusi and Zeckhauser, 2003; Goodin et al., 2005). For the citizens concerned, these restrictions on civil and political rights pertain to the costs of a deterrence policy. Such a response plays into the hands of the terrorists and, if going too far, becomes totally counter-productive. Costs of this type arise not only domestically but also internationally. If a country adopting a deterrence policy violates the rules which various countries have agreed upon, a cumulative worsening of international relationships may take place.

In order to secure their grip on power, all *governments* are tempted to *exploit terrorist attacks to their own advantage*. It has been suggested from many sides that President Bush used the terrorist attacks of September 11, 2001 to rally support for his "war on terrorism" (e.g., Goodin et al., 2005). Bush was able to convince the voters that he represented the will of the nation and that not supporting him (and his party) came close to being anti-American. As a result, the strict version of deterrence policy adopted by his administration was accepted as the only conceivable response to the terrorist attacks. In a well-functioning democracy in which the checks and balances work well, such dealings are part of the process of political competition. Such processes only threaten democracy if the government restricts political competition, for instance by undermining human and political rights (see above), or by hampering the activities of opposition parties and politicians. Democracy can also be undermined by a deterrence policy if deviating views are not tolerated and are claimed to help the terrorist cause. The coercive nature of deterrence policy tends to support such violations of political rights. These costs in terms of loss of freedom and political autonomy of the individual have to be considered when assessing the costs of a deterrence policy.

The second type of costs produced by a deterrence policy pertain to its *effects on terrorists*.

It is generally agreed that complete deterrence is impossible. No country, not even one that has the most extensive surveillance and punishment power, is able to thwart every conceivable future terrorist activity. Experience has shown that

terrorists are capable of innovative responses to deterrence policy. They not only seek ever new ways to achieve their goals, but they may also quickly change targets and attack those that are impossible or too costly to protect. The costs are further raised if terrorists move their attention away from less to more harmful and devastating objectives, resulting in more casualties and damage.

A coercive response tends to *reinforce terrorists' cohesiveness and influence*. At the same time it exacerbates nationalism and xenophobia in the countries associated with the terrorists. There are, thirdly, more *general costs* involved with fighting terrorism by deterrence.

Deterrence is based on a negative approach: terrorists are threatened with punishment if they persist in their activities. Coercive action is answered by coercive action. Such interaction tends to degenerate into a *negative sum game* between the parties involved, leaving both of them worse off (see George and Simon, 1994; Baldwin, 1999): both the country engaging in the coercive response, and also the terrorists lose. Any war, including the proclaimed "war against terrorism" is a "dramatically non-zero sum activity" (Schelling, 1984:269). This consequence may be the most important argument against relying exclusively or even mainly on force to fight terrorism. It is argued here that there is an alternative anti-terrorism policy available based on a *positive approach*.² Such anti-terrorist policies tend to evolve into positive sum games: As a result, both parties will be better off.

1.3. INEFFECTIVENESS OF DETERRENCE POLICY

In the literature on terrorism there is wide agreement that reliance on force as anti-terrorism policy is ineffective. One of the leading scholars makes the following clear statement:

"...hardline counter-terrorism policy...does not work" (Wilkinson, 2000:97).

The use of force is in most cases not only useless in deterring terrorists, but successful coercion is sometimes impossible. The U.S. air raids on the home and headquarters of Libyan President Gaddafi in 1986 were widely hailed as a successful example of anti-terrorist policy using strong military force. Empirical analyses of terrorist incidents before and after the raid on Libya do not indicate any significant reduction of terrorist activities in which that country was involved. After a brief lull, Libya seemed to become even more involved in international terrorism. No less than 15 incidents in 1987, and 8 in 1988, have been connected to Libya. The most dramatic subsequent event was the bombing of Pan Am flight 103 in 1988 over Lockerbie, Scotland which killed

² See also Bernauer and Ruloff (1999) for positive incentives in non-proliferation policies.

278 persons. Of course, this evidence does not necessarily mean that the coercive policy failed. There may be various long-term and indirect effects, one being that European governments have decided to take strong action against possible Libyan terrorists and people supporting them.

But an econometric analysis using vector-autoregressive intervention techniques (Enders and Sandler, 1993) was not able to find any noticeable long-term effect of President Reagan's earlier retaliatory policy designed to curb terrorist attacks directed against American interests. What the policy did achieve was that terrorist activities were then aimed towards less risky and secured targets rather than the heavily fortified embassies and other U.S. installations (Sandler and Lapan, 1988).

Despite many claims as to its effectiveness, deterrence may even be counterproductive. Based on a great many cases, this position is supported by many scholars. To again quote Wilkinson (2000:115):

"There is a widespread misconception that using terror to defeat terror will ultimately work. On the contrary, the evidence is that this policy is counterproductive."

Most observers agree that deterrence is not effective in changing the target country's policy towards terrorism. But it does not follow that coercion should not be used to fight terrorism as long as there is no preferable alternative. It may be that the other options are even less effective. If this were the case deterrence policy would still be advisable (if it was more beneficial than doing nothing). A worthwhile evaluation must make an effort to compare the use of force (against other/with alternative) anti-terrorist policies.

2. EFFECTIVENESS OF DECENTRALIZATION IN DEALING WITH TERRORISM

A coercive response that relies on brute force is not the only possible anti-terrorism policy. The alternative anti-terrorism policies proposed here emphasize the advantage of *decentralized* economic, political and social structures as a decentralized society is less vulnerable to terrorist attacks.

A system composed of many different centers is more stable due to its variety, which allows for any part to stand in for another. When one part of the system is negatively affected, one or several other parts can take over. Decentralization is an effective tool to reduce risk and uncertainty. It reminds of the old saying that it is wise "not to put all of your eggs in one basket" (see Dahl and Lindblom, 1953).

This fundamental insight from the field of socio-biology (see, e.g., Hirschleifer and Martinez Coll, 2001) also applies to terrorism. A target's vulnerability is lower in a society composed of many centers rather than in a centralized society. The

more centers of power there are in a country, the smaller are the chances that terrorists will be able to harm it. In a decentralized system, terrorists do not know where to strike, because they are aware that each part can substitute for the other, so that a strike is not likely to achieve much. Decentralization thus reduces both the probability of terrorists launching an attack and the extent of the damage caused in case of an attack. For these two reasons, terrorists have a lower incentive to attack decentralized rather than centralized societies.

In contrast, in a centralized system, most decision-making power with respect to the economy, polity and society is located in one place. This central power is an ideal target for terrorists, and therefore is in greater danger of being attacked. This possibility creates huge costs. If the center is attacked and hit, the entire decision-making structure may also collapse and so lead to chaos. In addition, there are high costs connected to fending off possible attacks. They not only fetter human and material resources, but also promote a bunker mentality in the minds of the central power. A ruler may be driven into isolation, become subject to "group think," and lose contact with the people. As a result, a gap between the central power and the people emerges, which will have bad effects on both sides. In particular, the ruler disregards the people's wishes, as he is afraid of leaving the bunker's (presumed) security.

The vulnerability of the two systems to terrorism varies and may be illustrated by two examples.

The attack on the twin towers in New York on September 11, 2001 represents a triumph for the market as an institution, although it is rarely seen in these terms. Though this was the gravest terrorist attack in humankind's history so far, the economic system as a whole was hardly affected. Due to its decentralized market economy, the United States' economy was only very marginally hit; the many other centers of economic activity, for example in Chicago, Los Angeles, Seattle or Boston, were not directly affected at all. They went on functioning without any problem. The estimated damage of 10, 20 or even 50 billion dollars is small compared to the US GNP of 10 trillion dollars. Even in Manhattan, the recovery was remarkably quick; most parts of the financial community were ready to take up work again a few days or even a few hours after the attack. This does not, of course, mean that there were no human or material losses. But the point is that not even this dreadful blow was able to seriously damage a decentralized economy like the American one. Much of the high costs incurred were the result of the *political response* to the attack (such as grounding the entire civilian air traffic and closing down the Wall Street stock exchange), and not the result of the attack itself. Viewed from this perspective, the attack was far from being a victory for the terrorists, but rather demonstrated the strength of a decentralized economic system.

The Catholic Church with the Pope as absolute, and (in the case of church dogma) even infallible, head is an example of a strictly hierarchical, highly centralized organization. Nobody can substitute for the Pope. Accordingly, the Pope represents an attractive target for terrorists and assassins alike. Indeed, there have been several attempts to assassinate the Pope. To some extent, the American President who possesses far-reaching powers also is a worthwhile target for terrorists and assassins. This position's vulnerability is mitigated by the fact that there exists a well-designed constitution which exactly specifies who will replace a president who has been assassinated. There have indeed been many attempts to assassinate American presidents, some of which were successful. A political system with a committee of equals at the top is much less vulnerable. This is, for instance, the case in Switzerland, where the government consists of seven members (the *Bundesrat*), each of whom has exactly the same amount of formal power. To attack one, or even several of them, would not endanger the stability of the political system.

That the system indeed works in this manner has been demonstrated by a recent incident in Switzerland. In September 2001, a man ran amok (he was not a terrorist) in the parliamentary building of the Swiss canton Zug. He shot and killed no less than three of the seven members of the government council (*Regierungsrat*), as well as eleven members of parliament. He also injured a significant number of other government and parliament members. Nevertheless, within a very short period of time, the government was functional again, not least because the heads of the partly autonomous communes were able to take over.

A similar incident in Armenia plunged the entire country into a political crisis. In October 1999, five gunmen burst into Armenia's parliament, assassinating the Prime Minister, Parliamentary Speaker and seven other government officials. Armenia's Defense Minister stated that the situation created by this incident was fraught with uncertainty, and that both the internal and external security of the state were in great danger. Because of the centralized nature of Armenia's political system, the killings left a power vacuum. There were no people at lower federal levels able to take over.

The next sections discuss decentralization in the economy, polity, and other parts of society.

2.1. ECONOMIC DECENTRALIZATION

A market economy is based on an extreme form of decentralization of decision-making and implementation (Von Hayek, 1978). Indeed, the advantages of the market economy as an efficient resource allocation mechanism start to break down when it is centralized via oligopolies or monopolies. Under competitive

conditions, the suppliers are able to completely substitute each other. Even if one of them is incapacitated due to a terrorist attack, the other suppliers are able to fill the void immediately. They are prepared, and have an incentive, to step in. No special governmental plans have to be set up for such substitution. Of course, most economic sectors are not perfectly competitive. But as long as there exists some amount of competition, there are always actual or potential suppliers who can take over. It follows that the more an economy functions according to market principles, the less vulnerable it is to terrorist attacks.

The strategy of *decentralization* is immediately applicable to *business*. Many enterprises are faced with immediate or at least potential terrorist threats. This applies in particular to firms located in developing countries where local terrorism exists (e.g., in South America, Africa, and Asia), but is also important for firms in developed countries. If the principal part of an enterprise, most importantly headquarters, is located in one prominent building, it offers an attractive target to terrorists. If an attack is successful current business may be severely disrupted, valuable documents and the contents of computers destroyed, and fear and uncertainty may spread among the employees. The ensuing costs tend to be out of proportion compared to the rather low cost of an actual attack or even of a threat of an attack. In many cases headquarters of large firms are landmark buildings, sometimes even "icons." This makes them even more attractive targets to terrorists, especially as one of the major ambitions of most terrorists is to receive media attention (Frey, 1988; Frey and Rohner, 2007).

If headquarters and other important parts of an enterprise are decentralized, the terrorists' destructive task is made much more difficult. They can no longer be sure where they should attack, and even if they do, the damage caused will be much lower than if the firm had been centralized in one location. In several respects, firms already pursue a decentralization strategy. In particular, they disperse the safety backups of computer contents in different locations. In the case of the terrorist attack against the firms in the New York World Trade Center Towers this strategy proved to be very beneficial.

Decentralization also helps to avoid and reduce the harm done by terrorist attacks in the case of monopolistic and oligopolistic sectors of the economy. Network industries, such as those for water, electricity or transportation, are less vulnerable if sub-units function independently.

An effective anti-terrorist policy supports economic decentralization and competitive structures, as this greatly reduces the country's vulnerability. Obviously, an anti-terrorist policy which concentrates on decentralization offers other attractive benefits: it strengthens democracy and liberalism.

2.2. POLITICAL DECENTRALIZATION

A second antidote to terrorism is political decentralization. It takes two forms, which are outlined below.

2.2.1. Classical Division of Power

Political authority is distributed among a number of *different political actors*. Most important is the classical division of power between government, legislature and the judicial system. Moreover, the media must be decentralized so that a terrorist attack will not threaten the flow of information. It is no accident that persons attempting a coup d'état commonly first try to gain control over the TV broadcasting station. However, if there exist several different TV broadcasting stations and these are located in many different places, this effort will be doomed to fail. Also, the public administration should have at least some measure of independence, as it needs to be able to act when a terrorist attack is imminent. This applies in particular to the police, the secret service, and the military. Public bureaucracy is further insulated against terrorism when it itself is decentralized.

A centralized organization will invite attacks by terrorists, partly because of its functions, but also partly because of its symbolic value. Thus, the planned concentration of the European Union's bureaucracy in one location in Brussels is likely to have a counter-productive effect on security. Any such building would be a particularly attractive target for terrorists. While it may be less costly to control and secure the sole access to such a building than it would be if the offices were widely dispersed, an actual or even suspected terrorist attack could still result in huge costs. If, for instance, it were suspected that terrorists had planted a bomb in the building, work would grind to a halt and all employees would need to be evacuated. This applies even for false alarms; so when public administration is centralized, the costs imposed by terrorist threats turn out to be very substantial.

In many countries, other actors also enjoy considerable independence. Most prominent is the central bank that has the power to pursue whichever monetary policy it sees fit. But there are also regulatory authorities that enjoy a degree of independence from other political decision-makers. The reasons for such (partial) independence are based on considerations that have nothing to do with terrorism. In many countries, central bank independence has been established because it is expected that such an organization will adopt a more long-run-oriented policy than governments. The latter are (usually every four years) subject to reelection pressures, inducing them to produce short-term political business cycles that work in their own favor. But such a degree of independence turns out to be an effective means of lowering the vulnerability

to terrorist threats. This effect is strengthened when the central bank itself is decentralized, as is the case for the American Federal Reserve, which is composed of various central banks located in a number of cities.

2.2.2. Spatial Decentralization

Political power can also be divided between various levels of government. In federal (i.e., spatially decentralized) countries, there are the federal, state/provincial/cantonal, and communal levels. In some countries, there also exists a fourth, regional level between communes and provinces (see, e.g., Bird, 1986; Oates, 1991). It is possible to go one step further by granting far-reaching autonomy to functional, overlapping and competing jurisdictions, or *FOCJ*.³ As each of these jurisdictions extends over a different area and is governed by an independent political body, such a system is quite immune to terrorist attacks.

The high population density typical for large urban areas makes them ideal targets for terrorists and other aggressors. Studies (Gaeser and Shapiro, 2002) suggest indeed that there is a statistical link between terrorism and urbanization, though they were only able to identify a weak relationship.

A spatial decentralization of the population is of special importance in cases where terrorists use biological and chemical weapons. In areas of high population density, viruses (such as smallpox) introduced by terrorists may spread quickly, leading to many casualties within a short period of time. The risk of this is not as pronounced when people do not live so closely together.

Strengthening political decentralization via the division of power and federalism strongly contributes to a country being less vulnerable to terrorist attacks. The attraction for terrorists to take aggressive action is diminished.

2.3. SOCIAL DECENTRALIZATION

Having many centers of power can extend beyond the economy and polity. Other forms of social groups can also be more or less centralized. There are many bodies, such as NGOs (*Non-Governmental Organizations*), clubs and corporations, which are able to function well in a decentralized way. Networks between firms without any hierarchical structure have become increasingly important. As the example of Linux has shown, completely decentralized open source systems are just as efficient, if not more efficient, than a hierarchical firm, such as Microsoft is in the production of the same type of software.

More important than the actual decentralization of particular organizations, is the effort to guarantee that many different decision-making systems operate in a society. In a totalitarian system, almost everything is dictated by a ruler (and

³The concept of multiple, overlapping federal units is explored in Frey and Eichenberger (1999).

may include which school one attends, whom one marries, which job one takes, and where one spends one's holidays), so making it most vulnerable to attacks from the inside and outside. In contrast, a liberal society is characterized by the coexistence of many different decision-making systems: the market, democracy, bargaining, bureaucracy and tradition. Such variety strengthens stability in case of a terrorist attack.

3. CAN DECENTRALIZATION BE UPHELD?

Decentralized economic, political and other social structures have three important beneficial effects with respect to terrorist threats:

- A target becomes less attractive to terrorists;
- Each of the units is better able to solve its problems. This makes it more unlikely that a terrorist threat will arise in the first place. A good example is provided by the Alto Adige (or South Tyrol) in Italy. For many years, it was plagued by terrorist activities, which substantially hindered its economic development. In particular, tourism was negatively affected. The Italian Senate's law, according far-reaching rights of autonomy to the region, almost certainly prevented a major eruption of terrorist violence between the Italian-speaking and German-speaking communities living in that region. Similarly, the greater degree of autonomy granted to Puerto Rico by the United States reduced political violence on this island. A study, undertaken by the World Bank (Collier and Hoeffler, 2001) for a combined cross-section and time series of 161 countries over the period from 1960 to 1999, presents indirect evidence that decentralization may help to prevent internal violence. On the basis of 78 civil wars analyzed, it is shown that strongly ethnically fractionalized (and in that respect decentralized) societies have a much lower risk of experiencing war-like internal conflicts than homogenous societies.
- Each of the units is better able to react and to reorganize itself in case a terrorist attack occurs.

These are important reasons why liberal democracies in the western world have been remarkably resilient to terrorism.

Yet, when a country is faced with terrorism, there is an overwhelming urge to centralize decision-making powers (see Wilkinson, 2000). This tendency is particularly strong when a country has been subjected to a dramatic terrorist act. The advantages of decentralization are then completely disregarded. An example is the United States. The American mega-merger of various bodies

into the new Department of Homeland Security with 169,000 employees, in this respect, is a move in the wrong direction. Any terrorist group able to attack this Department, either by the use of weapons (including biological and chemical agents) or by interfering with its electronic systems, could cause considerable damage. The fact that the centralization of units makes them more vulnerable has been demonstrated by the two terrorist attacks on New York's twin towers. The first attack in 1993 destroyed a principal command center of the police force and other support units. Nevertheless, the Mayor of New York, Rudolph Giuliani, ordered the establishment of a new central Office of Emergency Management in a building next to the World Trade Center. On September 11, 2001, this Office, which was intended to coordinate all police and support units in the event of a catastrophe, including terrorist attacks, was again destroyed and proved to be useless. But such reactions can also be observed in many other countries. When Italy and Germany faced menacing terrorist activities from the *Brigate Rosse* and the *Rote Armee Fraktion*, strongly centralized structures for anti-terrorist policy were established.

Why does such a centralizing policy reaction occur, despite the fact that it may be counterproductive? Two reasons may be adduced.

(1) In the case of an imminent or actual terrorist attack, the government is forced to take some quick and forceful action. Deterrence policy incorporating centralization meets this criterion. A "strong central command" in the short term *seems* to be an effective policy against the terrorists. In contrast, a decentralizing policy takes longer to become effective. The voters on whom the government in a democracy depends are less likely to attribute the positive effects of decentralization – the lower vulnerability – to the government's actions. At best, they notice that there are fewer and less dangerous terrorist attacks than elsewhere.

(2) Government politicians and public bureaucrats exploit the special situation created by terrorist threats to extend their own competencies. To possess the command over increased budgets and more resources enlarges their importance in society.

A polycentric policy is therefore not easy to achieve as a reaction to terrorism. It is a long-term strategy, having the best chance of being implemented when a terrorist danger is not imminent. It cannot be left solely to a government that depends on short-run electoral success. Long-term anti-terrorist policy through decentralization must be written into a country's constitution. The political actors – parliament, government, public bureaucracy and the courts – must be given the task to secure existing polycentric structures, and to expand them wherever possible.

4. CONCLUSIONS

Decentralizing the economy, the polity, and other social institutions is certainly not a panacea to "solve" the problem of terrorism. However, decentralization constitutes a powerful antidote as it strongly reduces the incentives for terrorists to attack and because the expected damage suffered is much smaller than in a centralized society. It moreover strengthens society, as economic, political and social decentralization (or polycentricity) is an essential element of a free and vigorous society. This in turn makes a society less vulnerable to terrorist attacks. Indeed, terrorism has no chance of success against a society that actively guards its fundamental liberal institutions, of which decentralized decision-making forms an essential part.

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