
Part V

The economic consequences of terrorism: can we afford to be safe?

Editors' remarks

In economic terms, security is not a fixed quantity but a trade-off. It can never be absolute, and when efforts are made to approach absolute security the costs—both direct and indirect—are liable to grow exponentially. The price for security measures taken by the state or by intergovernmental organs will eventually be paid either by the taxpayer, or in the form of enlarged fiscal deficits. For measures taken by the private sector, the costs will eventually be passed on to the consumer through prices. There are, however, often also indirect costs and impediments to wealth-creating economic activity inherent in the attempt to defend that same activity against attack or exploitation by hostile elements. Many of the ways to trace and block terrorists and criminals involve tighter controls on the movement of people and goods. Pre-emptive actions against such foes, as well as the actions taken by them, can create conflicts which disrupt normal economic intercourse. Such actions also divert resources from the civilian economy to the security sector, with uncertain implications for overall growth prospects. Last but not least, security strategies developed without economic advice may compromise the free play of competition and comparative advantage on which the efficiency of the global market depends.

Patrick Lenain's chapter surveys the costs both of terrorist outrages, and of actions taken since 11 September 2001 to counter them. Somewhat counter-intuitively, he concludes that the (negative) impact of these factors both on the private sector's balance sheet and on the US budget and trade deficit in the past two years has been relatively slight. As he also points out, however, these are proportional judgements reflecting the fact that other, more or less 'untypical' factors were at work at the time. It is too early for conclusions about the economic rationality (and longer-term sustainability) of the policy choices made after September 2001 by the USA and the free-market community in general. Business and consumer confidence has been an important factor and may, overall, have proved unusually robust during this period. New terrorist attacks, or new Western interventions, could still change the picture.

The issue which gives clearest cause for unease is that of insurance. The viability of the existing world insurance system is under threat from terrorism and from its knock-on effects on economic activity, but also from several other quarters. Climate change is increasing the frequency of costly natural calamities. Numerous other risk factors are making a growing number of countries and regions 'unsafe for business' to some degree.* The insurance sector is already signalling that another major disaster could push it to the point of collapse, unless governments help by (as Lenain puts it) becoming 'insurers of last resort'. If they do this, however, it will raise questions both about reintroducing state ownership through the back door, and about their own ability to cope. Deciding which government should reinsure a multinational company (say, an energy provider) will not be as simple as it has been since 2001 in the case of (still largely national) airlines. This whole issue needs more serious international attention, also from security experts, than it has received up to now.

* Control Risks Group (CRG), *RiskMap 2004* (Control Risks Group: London, 2003). See URL <<http://www.crg.com>>.