

**ECONOMICS OF TERRORISM:  
SUPPLY & DEMAND**

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**If  
I am destroying your world  
while  
I am acting morally within the confines of my world,  
then  
is it moral for you to destroy my world?**

**If  
it is moral for you to destroy my world,  
then  
are you also morally obligated  
to use technologies that my world views as moral;  
and/or  
to act efficiently from the point of view of your world?**

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**BIASES**

**cynic**

- [a] **virtue is the only good and self-control only means of achieving virtue**
- [b] **all individuals act from selfishness**

**1A-0**

**"just war"  
who is the individual: nation v. individual**

**principled negotiation**

**zero sum transactions rarely dominate  
underlying interests trump tactics**

**cause can be sufficient**

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**Value** is defined within a **culture**.

**Different cultures** may or may not define identical items as exhibiting identical values.

**Force** come in many forms.  
**Compulsion** is a common component of all forms of force.

One culture may value **tolerance** when another culture values **reactive force**.

**When the cause is sufficient,** all cultures justify **proportional reactive force**.

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**Some global terms**

**Economics**  
**Efficiency**

**Technology**

**Absolute Advantage**  
**Comparative Advantage**

**Synergy**  
**Synchronicity**

**Strategy**  
**Tactics**

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**Economics** studies **constrained optimization**.

e.g., "Bang for the buck."

**Efficiency** is to use the fewest inputs to obtain the output.

**Technology** is the feasible combination of inputs.

In a social context, technology either is:

**functional**  
**ceremonial**

**Absolute Advantage** is the ability to **produce** at a lower total cost or with higher productivity based on the cost of inputs and production for that producer.

**Comparative Advantage** is the ability to **substitute** at a lower total cost or with a higher productivity based on the **opportunity costs** for that producer.

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**Synergy** is two or more inputs **interacting** in an **additive or multiplicative** relationship that produces outputs that are not feasible with fewer inputs.

e.g., grinding poverty & religious fundamentalism

e.g., drug trade & weapons trade

e.g., emotional stability & comparative advantage

**LEVERAGE**

**force applied to lever** and magnified via a **fulcrum** moves an object

**Synchronicity** is an **operation in unison** of multiple inputs acting **simultaneously or sequentially**, which unison generates discrete outputs.

e.g., 9-11

e.g., 9-11 & anthrax

e.g., open society & global economy

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**Strategy** is science and art of using **stratagems** (i.e., maneuver designed to deceive or surprise) to achieve one or more **objectives**; typically, military.

**Tactics** are the techniques and science of securing the objectives designated by strategy, especially the art of deploying and directing resources in **coefficient maneuvers** against the opposition.

**Strategy** sets the **ends** while **tactics** provides the **means**.

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**That your opponent has chosen to oppose you** does **NOT PREDICT** your opponent's **intellect, creativity, or determination.**

**That your opponent has chosen to oppose you** **MIGHT PREDICT** that your opponent **PERCEIVES** some **divergent strategies or tactics, some zero sum transactions, and/or some fundamental values have negative synergies.**

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Terrorism is a technology.

Military operations, typically, seek to minimize collateral damage.

Terrorism seeks leverage via intended, significant, specific collateral damages.

What is "efficient" depends on the definition of input and output.

Terrorism for "the oppressed" offers a variety of absolute advantages (e.g., cost of offense versus defensive costs) and comparative advantages (e.g., desired outputs) relative to traditional military operations.

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The technology of terrorism is used in many contexts.

LARGE versus LARGE  
Sherman's March, M.A.D.  
containment

LARGE versus small  
KKK, Stalin, Pol Pot, Taliban  
management

small versus LARGE  
Etzel; in USA, WAR v. ZOG; al Quaeda  
transform

Today's focus is on small versus LARGE.

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### Major Forces of Change

Approximately  
the year  
1500

GUN POWDER  
NEW WORLD  
PRINTING PRESS  
RURAL  
LABOR SHORTAGE

Approximately  
the year  
2000

FISSION  
ONE WORLD  
COMPUTER  
URBAN  
LABOR SURPLUS

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### CAPITALISM

ELEMENTS (means) and FUNCTIONS (ends)

private property	embody self interest
prices	measure self interest
markets	coordinate self interest
competition	regulate self interest
government	facilitates

p.p., p., m., & c.

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### HISTORY OF CAPITALISM

pre 1500	PRE-CAPITALISM (FEUDALISM)	self sufficient manor
1500 - 1800	MERCANTILISM	self sufficient nation
1750 - 1890	FREE CAPITALISM	self sufficient individual
1860 - 1920	INDUSTRIAL CAPITALISM	self sufficient firm
1890 - 1930	FINANCIAL CAPITALISM	self sufficient industry
1915 -	RESPONSIVE CAPITALISM	
1930 -	REGULATED CAPITALISM	
2000 -	???	

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$$\text{PROFIT} = \pi = \text{TR} - \text{TC}$$

$$\text{TR} = P * Q$$

$$\text{TC} = \text{FC} + \text{VC}$$

$$\text{TC}_E = \text{land} + \text{labor} + \text{capital} + \text{entrepreneurial ability}$$

$$= \text{rent} + \text{wages} + \text{interest} + \text{normal profit}$$

$$\text{TC}_A = \text{land} + \text{labor} + \text{capital}$$

$$= \text{rent} + \text{wages} + \text{interest}$$

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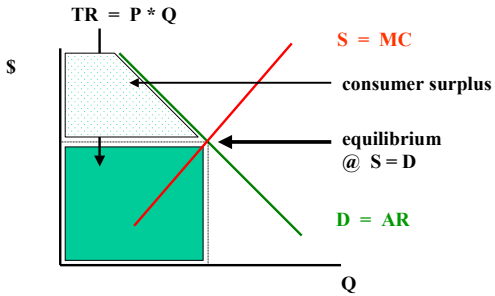
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**Supply and Demand curves**




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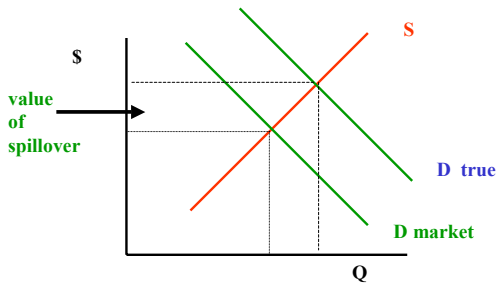
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**spillover benefits: get more than buy & pay less**




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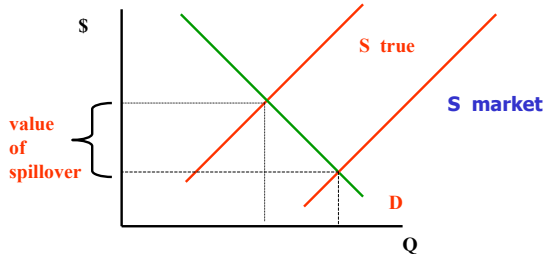
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**spillover costs: buy more, pay less**



**Note: the boxes are not the same as spillover benefits**

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All military action seeks a social objective.  
All military action seeks **defense first and offense second.**

The wise are efficient,  
and thus either avoid war and seek war based on efficiency.

**Farengi Rules of Acquisition**

- #34: "War is good for business."
- #35: "Peace is good for business."
- #60: "Let's you and him fight."

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A fool appeases a foe  
until the foe can overwhelm fool's defenses.

Value in the **short run** need not equal value in the **long run.**  
synchronicity  
Net Present Value  
Rule of 70

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Each action has a **footprint.**  
geographic  
time  
social

Footprints are influenced by  
economies of scale  
economies of scope  
leverage of network effects

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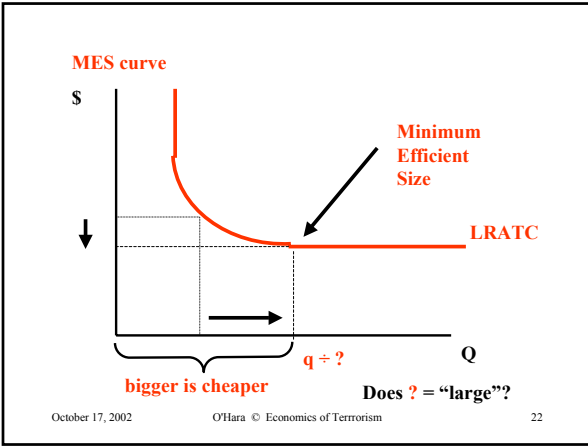
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Weapons have footprints.

gun < TNT < gas < fission < fusion < biological

Some footprints allow for surgical use.  
Other footprints generate splash back & friendly fire.  
collateral damage

Many weapons require complementary inputs.  
gun < army, but sniper  
missile < air force; but airplane  
torpedo < navy; but speedboat  
Complementary inputs tend to increase costs.

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The footprint of a weapon can be increased if leveraged on the fulcrum of biological process and/or psychological reaction.

gas  
mustard  
nerve

However, both the frequency of and magnitude of splash back tends to increase with such leveraging.

wind drift friendly fire  
biological propagation  
mass hysteria

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Some biological weapons propagate biologically.  
This creates the ultimate footprint and massive splash back.

biological weapon **non-infectious**  
anthrax  
physical propagation

biological weapon **infectious**  
small pox  
West Nile Virus  
biological propagation

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All weapons are destructive.  
All weapons generate losses.

Losses are measure on both sides of attack.

The attacker seeks post attack comparative advantage.

Losses are measured in absolute terms and relative terms.

Recall the footprint is in the dimensions of  
geography, time, and social.

These losses are sought as the price for the strategic objectives.

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**ABSOLUTE LOSSES**

persons

physical assets  
stored labor

intangible assets  
network effects

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**RELATIVE LOSSES**

**defense**

- costs of prevention
- loss of military productivity
- loss of civilian productivity

**offense**

- cost of delivery
- interrupt objectionable behaviors
- minimums required for sustained existence
  - of foe
  - of self
  - of humans

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Gains are measured by the value of the strategic objectives.

Demand tends to call supply into the market.

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**DEMAND**

The demand for terrorism springs from the its function.

- contain
- manage
- reform

today's focus is on **reform**

Reform sometimes places an increased value on destruction.

Reform tends to seek a greater footprint.

Reform's greater footprint is greater  
in both absolute and relative terms.

relative is measure in terms of  
you, them, your inputs, and their assets

**Today, the small seek to topple the largest of the large.**

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**SUPPLY**

The market prices based on desired footprint.

The cost is measured in both absolute and relative terms.

Absolute cost is in dollars.

Relative cost is in relation to:  
desired footprint;  
buyer's resource base,  
relative to cash flows  
relative to wealth;  
complementary and substitute inputs; and  
comparative advantage of technology used.

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On a footprint basis, the price of weapons of mass destruction (WMD) is relatively low.

WMD have a greater footprint because of biological and/or psychological propagation.

WMD are less attractive to globalized cultures because of splash back.

**Ideologically motivated terrorists** may place a positive value on substantially reduced globalization, and thus prize WMD.

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Business corporations seek profit. That is, after subtracting cost, they maximize net revenue. Spillovers (both costs and benefits) involve trade-offs governing boards should make. Spillovers, especially when coupled with clumsy applications of discounted present value, distort a business' perception of profit. Today, businesses are buffeted by the old risks of recession and the new risks of terrorism. If modern society is to survive, then the seeds of terrorism and their fruit of tremendous loss must be contained. Accordingly, governing boards must propel businesses towards a paradigm of genuine profit. Governing boards must insist that their businesses prospect for positive feedback loops and implement a sustainable profit stream. In short, governing boards must insist that business be entrepreneurial.

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