On the optimal retaliation against terrorists:  
The paid-rider option*

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Abstract. We examine whether nations, faced with the threat of terrorism, will be motivated to engage in the efficient amount of retaliation against terrorists. We demonstrate that the problem confronting the efforts of nations to achieve an optimal retaliation against terrorists is understated by the traditional free-rider analysis. In particular, nations have the option of actually selling or reducing the public good of retaliation, provided through the efforts of others, by offering safe havens to terrorists in return for the terrorists' pledge to attack elsewhere. This paid-rider behavior is also shown to apply to other public good scenarios.

1. Introduction

Before midnight on the evening of 14 April 1986, eighteen U.S. F-111 fighter-bombers departed British bases at Lakenheath and Upper Heyforth to fly 2,800 nautical miles to bomb targets in Tripoli, Libya.¹ After midnight on the morning of 15 April 1986, fifteen A-6 and A-7 Navy fighter-bombers left the decks of the USS American and the USS Coral Sea, two aircraft carriers stationed in the Mediterranean Sea. At 2 a.m., the F-111s hit designated targets in Tripoli, while the Navy planes hit targets in Benghazi. The Pentagon had chosen five targets: (1) Qaddafi's Azizyah Barracks in Tripoli; (2) the Jamahiriyah Barracks in Benghazi; (3) the Sidi Bilal Port west of Tripoli; (4) the military side of the Tripoli airport; and (5) the Benina military airfield. According to the Reagan administration, the strike against Libya was a retaliation for alleged Libyan sponsorship of the April 4th bombing of the La Belle Discotheque in West Berlin, which killed three people including two U.S. servicemen and injured 231 including 62 Americans. Even though most of the injured included West Germans, Turks and Arabs, only the U.S. government retaliated. The effects of the raid was somewhat mixed: In the two weeks following the raid, there were at least 42 incidents of transnational terrorism directed at either U.S.

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or British interests. In most of these incidents, those claiming responsibility said that their act was a response to the U.S. air strike of Libya. This unprecedented number of events, which included bombings, assassinations, threats and hoaxes, is approximately five times the number of events targeted at U.S. and British interests during comparable two-week periods in the 1980s (see Mickolus et al., 1988; 1989). After this initial increase in terrorist events, Middle Eastern and Libyan related terrorist attacks decreased significantly during the remainder of 1986 and the beginning of 1987. The number of international terrorist events in Europe fell from 218 in 1985 to 156 in 1986 and 150 in 1987. The raid’s long-run ameliorating effects on terrorism appear, on balance, to have outweighed the short-run increases.

Terrorism imposes significant costs on the community of civilized nations, and is rapidly becoming an important means of political expression in the international and domestic arena. Terrorist events are increasing both in number and lethality in recent years: In 1985, 825 people died and 1,217 injured in 782 international terrorist events (U.S. Department of State, 1986: 3, 30). In 1983, there were 485 events; in 1984, there were 598. The costs associated with terrorism can be reduced by taking actions against terrorist groups and the nations that sponsor them. Over some range of action against terrorist agents and surrogates, the marginal benefits derived from reduced terrorism will surely outweigh the marginal costs associated with the action. Some positive level of retaliation against terrorists is, therefore, efficient from the perspective of the victimized countries.

The question addressed here is whether targeted countries will be motivated to engage in the efficient amount of retaliation against terrorists. The efficient level of retaliation, though easy enough to determine at the conceptual level, is difficult to ascertain with precision at the level of actual policy. A large number of factors are relevant, and most of them are hard to quantify. By invoking a few plausible assumptions, however, we are able to develop a simple model that implies that the retaliating response of countries victimized by terrorists will be suboptimal. Associated with this general implication is a number of more specific implications that stand up to the test of casual observation and, by doing so, provide some credibility to the view that retaliation against terrorists is suboptimal.

The results of this paper depends, in part, on the assumption that many of the benefits generated by one nation’s retaliation against terrorists extend to the international community and are nonrival in consumption over the countries facing a common terrorist threat. These public benefits are also nonexcludable, since once provided by the retaliatory response of one country, they cannot be denied to other countries. The presence of these public benefits suggests that the incentive to free ride on the retaliatory response of others will lead to a suboptimal level of provision, as is true in the case of other public goods. Moreover, we show that the problem confronting the efforts of nations to