

MONSTERS TO DESTROY

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**UNDERSTANDING THE
WAR ON TERROR**

NAVIN A. BAPAT

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To Shajsultan Bapat, M.D.

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ACKNOWLEDGEMENTS

This book represents the combination of two puzzles that I've examined for most of my career. The first is why terrorism creates such large effects on policy, investment, and on decisions to go to war. The second is why the U.S. is as powerful and as influential as it is, even though Americans only constitute 5% of the world's population. This work proposes answers to both of these questions, though I am not entirely comfortable with their implications. I've come to think of this book as one that is about privilege, and what people will do to maintain their social and economic superiority relative to others. As someone with privilege in a global sense, I certainly understand that one cannot credibly commit to surrendering it. Yet, while researching what is done to protect it, I've found it increasingly difficult to conclude that this position is justifiable, and that these behaviors are defensible.

I have many people to thank for allowing me to create this manuscript that has contributed to my ongoing moral anguish and torment. My colleagues at the University of North Carolina at Chapel Hill have been invaluable to me in terms of pushing the project forward, especially Mark Crescenzi, Stephen Gent, Patricia Sullivan, Layna Mosley, Cameron Ballard-Rosa, Sean Zeigler, Frank Baumgartner, and Tom Carsey, who unfortunately left us far too soon. Thank you also to my students Lucia Bird, Menevis Cilizoglu, Chelsea Estancona, Bailee Donahue, Dan Gustafson, and Rob Williams for listening to me blabber on about energy markets far too many times over the last few years. I also have to thank numerous scholars in the field who patiently listened to my ideas, pointed out their deficiencies, and forced

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TERRORISM AND THE PROBLEM OF MORAL HAZARD

U.S. hegemony appeared unassailable in the spring of 2003. The U.S. had established friendly regimes in Afghanistan and Iraq and had secured the cooperation of the world's major producers of energy as well as the states comprising the key transit routes. The U.S. extended its guarantee to protect these host states from all internal and external enemies, so long as these hosts cooperated in the petrodollar system and recycled their profits back to U.S. markets. The new war on terror required the U.S. to guarantee the security of these host states while building them into reliable partners to protect the world's energy infrastructure. Yet, despite the security guarantees and enormous commitment of resources, terrorist violence in the American-backed host states became far worse following the end of Operations Enduring Freedom and Iraqi Freedom. Figure 3.1 demonstrates that both terrorist attacks and the number of fatalities from this violence in the affected regions of the Middle East, Asia, and Africa exponentially increased during the period 2002–2007. These data suggest that U.S. was failing to protect

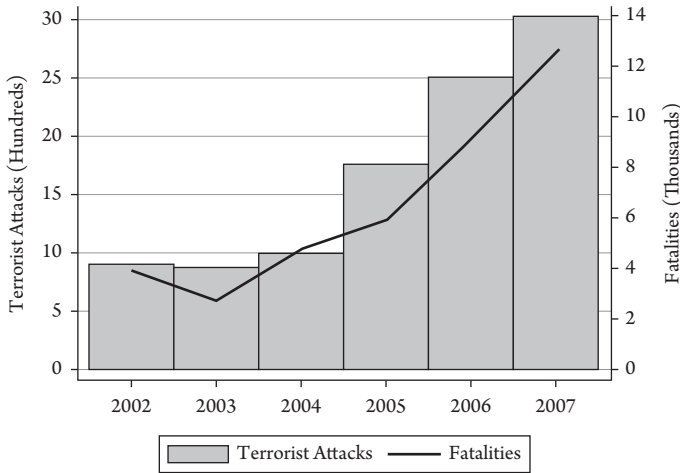


Figure 3.1. Terrorist Attacks and Fatalities from Terrorism in Middle East, Africa, and Asia, 2002–2007.

Note. Data from the Global Terrorism Database; see National Consortium for the Study of Terrorism and Responses to Terrorism (START). 2018. Global Terrorism Database [data file]. Retrieved from <https://www.start.umd.edu/gtd>. Counts exclude attacks in North America, South America, Europe, and Oceania.

and secure the key host states that supplied energy and served as transit routes.

This chapter argues that this failure can be attributed to a moral hazard problem created by the U.S. strategy. Moral hazard refers to a situation where an individual, who would ordinarily avoid risk, gets some form of support that allows her to take these same risks that may produce adverse outcomes. In this case, since the host states had American protection, they were free to take the risk of engaging in increasingly corrupt behaviors, all while labeling their political opponents as “terrorists.” Even though many of these groups were motivated by local grievances and showed little interest in the politics of energy, the U.S. was obligated to defend the hosts so long as the threat of “terrorism” existed. Further, since the U.S. would pay to defend hosts from all terrorist threats, but would reduce its military support if the threat of terrorism receded, the American strategy gave host states little incentive to disarm its terrorists. Instead, the hosts developed incentives to play up the threat of terrorism and demand U.S. protection. As a result, the host regimes, such as Afghanistan, Pakistan, Yemen, Egypt, and numerous others, grew increasingly corrupt, repressive, and unresponsive

to their populations, leaving the U.S. to defend them from the growing terrorist threats in their territories.

However, despite this clear evidence that these hosts were exploiting the security arrangement, I argue that the U.S. continued to support these host states in order to protect its dominance over global energy markets. This protection enabled host leaders to ignore the demands of their local populations while continuing to recycle profits into American treasuries and financial institutions. Paradoxically, the increasing terrorist violence served the interests both of the U.S. and of the host leaders. It forced the U.S. to defend the host leaders, even as they refused to negotiate with their political opponents. Simultaneously, it made host leaders dependent on the U.S. for their security, which in turn supported their participation in the petrodollar system. In a sense, the threat of terrorism *benefited* the U.S. by giving it reason to provide protection, which in turn supported the host states' willingness to cooperate in the petrodollar system. To make this argument, let us first examine the security situation faced by the U.S. at the end of the Iraq war.

SECURING THE GLOBAL ENERGY MARKET AND THE PROBLEM OF WEAK STATES

The security situation in most of the host states under the American security umbrella began to deteriorate shortly after the U.S. victory in Afghanistan. Both the Pakistani Taliban and various Kashmiri militant groups responded to Pervez Musharraf's renouncement of terrorism and rapprochement with India by staging numerous assassination attempts against the critical U.S. ally. American policymakers viewed the situation with considerable concern. Afghanistan was only accessible through Pakistan and some of the former Russian republics, which could be pressured at any time by the Russian leader Vladimir Putin to suspend cooperation with the U.S. It was therefore essential for the U.S. to protect Musharraf against these militant threats and keep him in power. Similar strains were emerging in other traditional American allies following the victory in Iraq. As the Sunni insurgency in Iraq grew, the Saudi monarchy faced an insurrection in its own territory

from al Qaeda sympathizers. In May 2004, these terrorists staged a high-profile attack against the Khobar oil compounds. Similarly, in October 2004, al Qaeda-inspired terrorists attacked hotels in Egypt's Sinai resorts, killing thirty-one people and wounding over a hundred others. Both the Saudis and the Egyptians pledged to work even harder to fight al Qaeda and prevent it from recruiting their nationals for terrorist attacks. Similarly, Ali Abdullah Saleh of Yemen faced increasing attacks from militants affiliated with al Qaeda. Maintaining Yemen as an American ally allowed the U.S. uninterrupted access to the energy chokepoint of Bab el-Mandeb at the opening of the Red and Arabian seas, which was critical for the passage of goods from the Middle East to the Suez Canal en route to Europe. Saleh's government further faced a rising Houthi insurgency in the north following its effort to arrest the Zaydi sect leader Badreddin al-Houthi, a key opponent of the regime.

For the energy-market states serving as hosts to terrorists, the task of disarming these groups would be very difficult from both the military and political perspective. The ability of these states to project power throughout their territories was often limited by geographic terrain and poor infrastructure. These areas where the state's reach was limited were ripe for the growth of terrorists and insurgent movements.¹ For example, Pakistan's semiautonomous Federally Administered Tribal Areas (FATA) consists of a territory in the border region of the state, which is very mountainous and lacks a substantial road and rail infrastructure. The Pakistani government therefore faced considerable difficulties in conducting military operations in these borderlands. Similarly, while the Indonesian government can secure the main island of Java, the country consists of 200 million people and over 17,000 islands, with some of them well over 500 miles from the capital. The task of eliminating these terrorist groups, such as the Quetta Shura in Pakistan and Jemaah Islamiyah in Indonesia, from these territories was going to be exceptionally difficult for these host states, particularly since many of them were resource poor to begin with.

Yet, the George W. Bush administration argued that it could overcome these structural factors with greater U.S. economic and military

support to hosts of terrorist groups. President Bush confidently claimed in a speech at the Virginia Military Institute in 2002:

We know that true peace will only be achieved when we give the Afghan people the means to achieve their own aspirations. Peace will be achieved by helping Afghanistan develop its own stable government. Peace will be achieved by helping Afghanistan train and develop its own national army. And peace will be achieved through an education system for boys and girls, which works. We're working hard in Afghanistan. We're clearing minefields. We're rebuilding roads. We're improving medical care. And we will work to help Afghanistan to develop an economy that can feed its people without feeding the world's demand for drugs.²

A little over a year later, in his “Mission Accomplished” speech on the deck of the U.S.S. *Abraham Lincoln*, Bush similarly stated about Iraq:

We will stand with the new leaders of Iraq as they establish a government of, by, and for the Iraqi people. The transition from dictatorship to democracy will take time, but it is worth every effort. Our coalition will stay until our work is done. And then we will leave—and we will leave behind a free Iraq.³

Bush's strategy was outlined in the State Department's release of the National Strategy for Combatting Terrorism in February of 2003.⁴ The document stated that the U.S. would strengthen the capacity of weaker and reluctant host states to project power and fight terrorists throughout their territories by providing them with economic support, military aid, and, in some cases, large deployments of U.S. troops. Bush argued that in the post-9/11 world, the risk of terrorists gaining traction in weaker host states posed a security problem for all states in the international system. This was especially true in cases where these hosts had the material to produce nuclear weapons, such as Afghanistan, or already maintained a nuclear arsenal, such as Pakistan. The task of rebuilding the nonexistent governmental institutions of Afghanistan, and the task of securing and developing Iraq's dilapidated infrastructure, required

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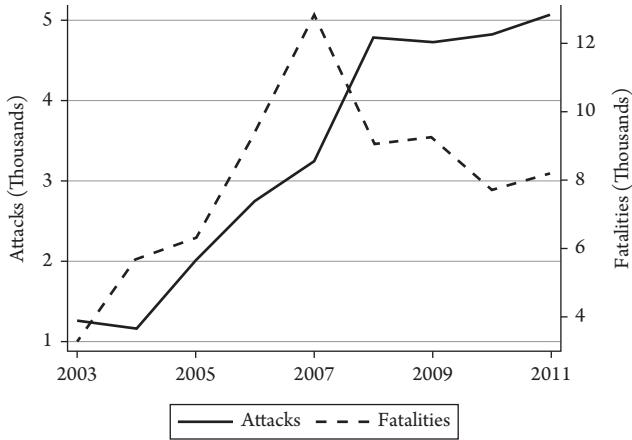


Figure 3.2. Terrorist Attacks and Fatalities in the Iraq War Period, 2003–2011.

Note. Includes both domestic and transnational attacks from the Global Terrorism Database; see National Consortium for the Study of Terrorism and Responses to Terrorism (START). 2018. Global Terrorism Database [data file]. Retrieved from <https://www.start.umd.edu/gtd>.

a substantial financial and military commitment. The estimated cost soared during Bush's first term from a predicted \$33.8 billion in fiscal years 2001 and 2002 to \$94.1 billion in fiscal year 2004, and to \$107.6 billion in fiscal year 2005.⁵ The wars, coupled with the Bush tax cuts of 2001 and 2003, resulted in budget deficits of \$377 billion in 2003 and \$412 billion in 2004. The Bush administration argued that the U.S. needed to accept both the burden of building "democratic" regimes in Afghanistan and Iraq and the burden of defending other hosts from al Qaeda and its affiliates.

These arguments were supported by numerous academics who concluded that forcing weak states to fend for themselves would lead to the formation of terrorist groups. These groups would then acquire more deadly weapons, contribute to more terrorist attacks, and possibly contribute to wider interstate wars.⁶ Many sophisticated data analyses supported the conclusion that failing states were favorable environments for the rise of terrorist and other militant groups.⁷ The task of preventing such expansion was portrayed as a noble good that only the U.S. could provide and as a burden that the U.S. reluctantly needed to accept to fight the evil of terrorism.

However, by the end of the decade, the strategy of state building looked like an abject failure. Figure 3.2 demonstrates that despite

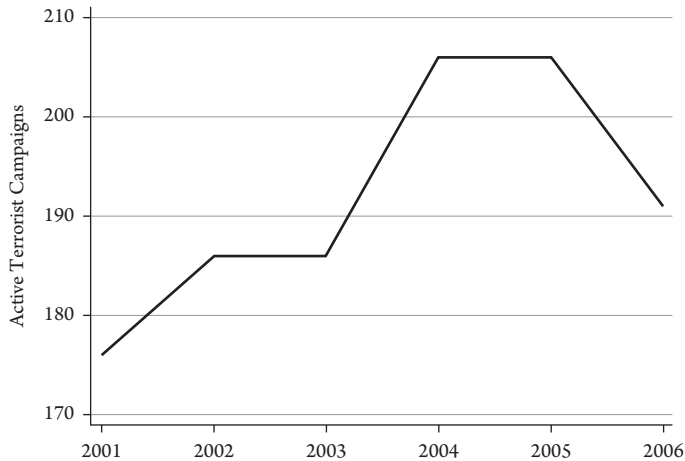


Figure 3.3. Active Terrorist Campaigns, 2001–2006.

Note. Data based on Jones and Libicki (2006), a study sponsored by the RAND Corporation.

billions of dollars spent, and several thousands of lives lost, American efforts could not prevent the rapid rise in terrorist attacks globally in the decade following the fall of Baghdad. Figure 3.3 further demonstrates that the number of active terrorist organizations throughout the world grew following the initiation of Operations Enduring Freedom and Iraqi Freedom. Despite the immense U.S. effort that went into strengthening the host states of the energy infrastructure, the result was more terrorist groups and more terrorist attacks.

Evidence suggests that the American strategy was undermining its own strategic objectives. The purpose of providing military assistance was to enable host states to defeat terrorists in their territory. To determine how effective U.S. military support was in achieving this objective, consider the relationship between American military aid and the duration of terrorist campaigns. We can determine the U.S. commitment of counterterrorism aid using the U.S. Overseas Loans and Grants Greenbook for 2008.⁸ We can then determine if the provision of this aid contributed to a shortening of terrorist campaigns using a dataset from the RAND research organization that contains information on 184 terrorist campaigns against 48 states during the period 1997–2006.⁹ Empirically, if the U.S. strategy was effective, the provision of military aid should *increase* a terrorist group's hazard of collapse.¹⁰

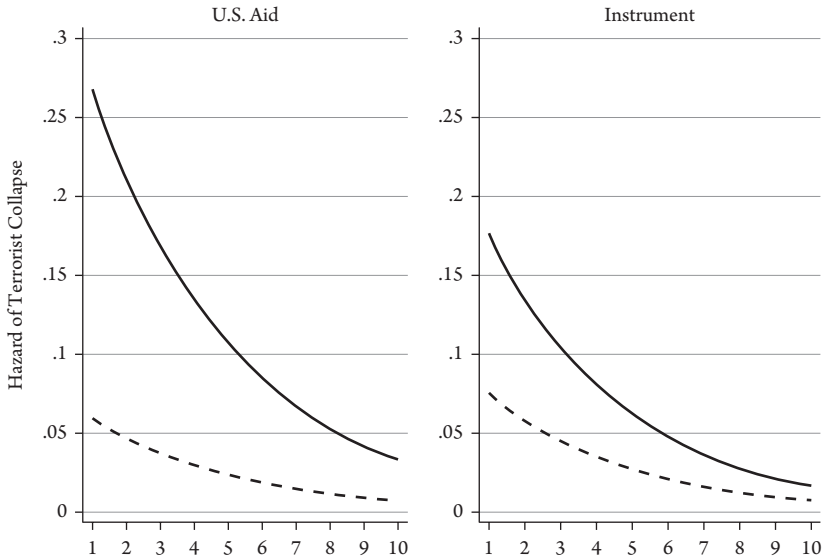


Figure 3.4. U.S. Military Aid and the Hazard of Terrorist Group Collapse.
 Note. Solid line represents the rate at which terrorist groups collapse (in statistical terms, the “hazard”) in cases with no military aid from the U.S.; dashed line represents the rate at which terrorist groups collapse in cases where the U.S. provides some level of antiterrorism support. Please see appendix for description of methodology and statistical results.

Disturbingly, Figure 3.4 demonstrates that U.S. military support had the exact opposite effect, in that the provision of aid increased the propensity of terrorist organizations to survive. We see that the rate at which terrorist groups collapse—that is, the “hazard,” in statistical terms—is *lower* in countries where the U.S. provides military aid (dashed line) than in countries where the U.S. provides none (solid line). In other words, even though the U.S. provides military assistance to a state that is fighting terrorists, the probability that the group collapses in fact drops in proportion to that aid. These results demonstrate that U.S. assistance clearly did not facilitate the collapse of terrorist organizations and may have instead contributed to a prolonging of these violent campaigns.

We see that despite the heady predictions of the American foreign policy establishment, the American strategy ended up contributing to more terrorist attacks, more fatalities from terrorism, more terrorist groups, and a general prolonging of terrorist campaigns. What caused the U.S. strategy to fail so spectacularly?

EXTERNAL MILITARY AID AND INTERNAL CONFLICT

To scholars of foreign aid, it is not particularly surprising that the U.S. encountered substantial difficulties. Numerous empirical studies demonstrate that foreign aid tends to make recipient states less democratic, more corrupt, and more prone to internal rebellion.¹¹ To be sure, some of these studies suffer from selection bias, meaning that donor states are only likely to provide military aid to recipient states that are relatively weaker and more prone to rebellion. Therefore, a simple analysis of whether military aid associates with political stability that does not account for these strategic incentives is likely to be biased. Nonetheless, within the pool of aid recipients, military support is notorious for creating disincentives for states to pursue sound economic policy.¹²

These empirical studies strongly suggest that if the goal of military assistance is to build functional states that would faithfully execute favorable policies, military aid often achieves the opposite. It is easy to point to the behavior of anti-Communist recipient countries during the Cold War, which often possessed some of the worst human rights records as defined by both Freedom House and Amnesty International.¹³ If we apply these insights to the problem of transnational terrorism, we might expect that military aid itself may both increase terrorist activity and exacerbate the conditions that led to the formation of the group in the first place. If military aid increases the corruption of host states, and creates disincentives for recipient states to enact sound policies, this in turn may negatively affect economic growth. Given these patterns, it is very difficult to argue that American policy was based on sound reasoning, and far easier to conclude that the strategy was simply hubris.

However, let us consider an alternative explanation. In the academic literature, the success of antiterrorism policies is usually based on whether they result in a decrease in the number of terrorist attacks.¹⁴ While this appears to be a reasonable and appropriate metric, the literature suggests that fluctuations in the count of terrorist attacks may have multiple interpretations. For example, although al Qaeda staged the most significant terrorist attacks in history on 9/11, al Qaeda would appear to be contained if we measure success solely by examining the number of terrorist events, given that it only produced one successful

attack in 2001. On the other hand, a considerable literature suggests that terrorist violence may increase if a group is relatively weaker or on the verge of collapse.¹⁵ However, if we use the number of attacks as the metric, we again see that a group that is dying may appear to be a significant threat, given that such a group might stage multiple attacks. These theoretical insights suggest that using the number of attacks as a metric for determining the success of U.S. counterterrorism strategy may be leading to flawed conclusions about the effectiveness of U.S. policies.

Let us consider an alternative measure of success. From the policymakers' perspective, the goal of military aid is not only to disarm a terrorist group but also to prevent the group from accomplishing its strategic objectives. Although many studies simply assume terrorists are interested in maximizing violence, micro-level and rational choice studies indicate that violence by itself is typically not the goal of these groups. Instead, these groups often have defined political aims and behave in a strategic, rational fashion to achieve them. The goals of terrorist groups span from seeking a change in a policy, to the overthrow of a central government, to the pursuit of secession. If this is true, the central goal of military aid might not be to prevent terrorists from engaging in violence but rather to prevent these groups from achieving their strategic objectives. For example, while military aid may contribute to an increase in terrorist violence, such assistance might convince host states to stand firm and refuse to negotiate with terrorist challengers. Additionally, military support may make it more difficult for terrorists to defeat the recipient state and increase the length of time the group must fight to accomplish its goals. Since most terrorist groups cannot sustain collective action for extended periods, simply keeping the terrorists at bay might lead to a situation where the group collapses on its own. This suggests that if we refocus attention away from the number of terrorist incidents, we may see that military aid is accomplishing U.S. strategic objectives, in that it is enabling recipient states to hold the line against terrorists and maintain a pro-American orientation.

This alternative concept of success is consistent with U.S. efforts to protect the hosts that were critical to the supply and transit of

energy. Given this alternative definition, let us now analyze the logic of American strategy to examine both its relative effectiveness and its unintended consequences.

THE LOGIC OF AMERICAN STRATEGY

We can use logical deduction to predict the effects of economic and military aid using Figure 3.5, which presents a stylized view of the decision-making of a state that is hosting a terrorist group. These host states can adopt one of three strategies in response to terrorist challenges. First, the host might choose to negotiate with the terrorists and

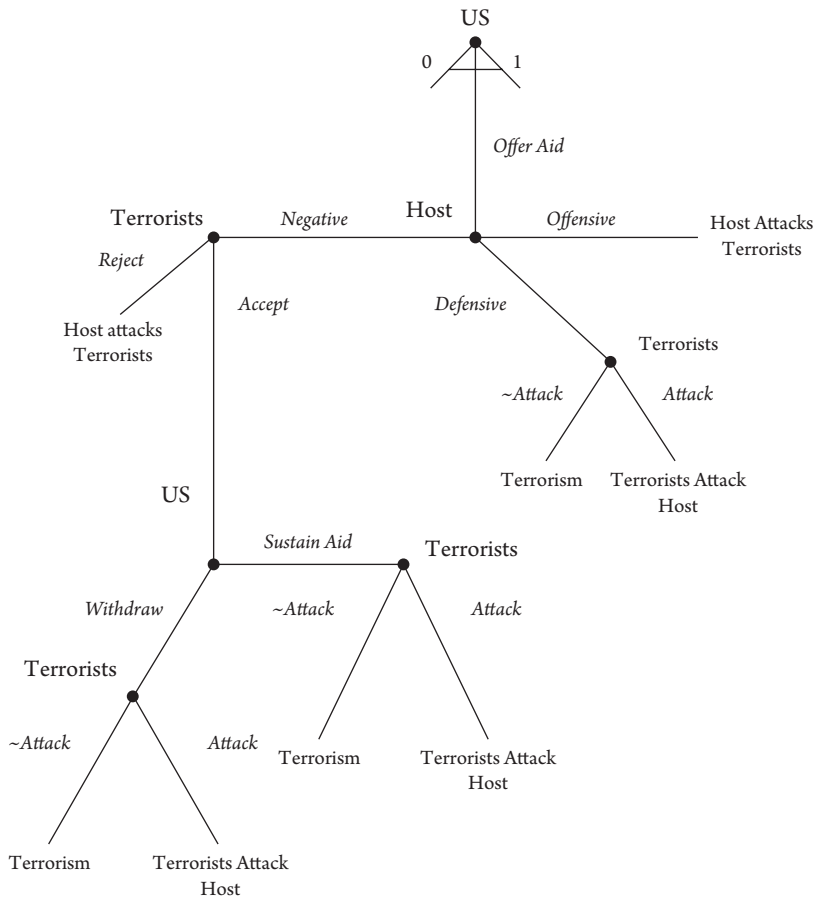


Figure 3.5. A Model of American Strategy in the War on Terror.

Note. A full presentation of the game diagrammed here and its equilibria are available in the mathematical appendix.

accommodate their views into the government's policies. This might antagonize the U.S., but based on studies in bargaining theory, it is the most efficient way to resolve the conflict. The economic and military aid from the U.S. increases the host's power in negotiation and therefore allows for a more favorable settlement. Alternatively, the host makes no concessions to the terrorists but encourages lower-level members of the terrorist groups to accept the host's sovereignty. The state further uses American military support to build defenses at the host's center, but it takes no offensive military actions to disarm the terrorists. This represents a gamble by the state that the terrorists will either be deterred from beginning a conventional campaign to oust the host government or will be defeated if they make such an attempt. The third option is for the host to engage in a military offensive aimed at disarming and dismantling the terrorist group within its territory. This appeared to be the goal of American policymakers following 9/11. By providing host states with sufficient economic and military power, these states should be increasingly willing to take the fight to the terrorists and destroy them.

Let us assume that neither the U.S. nor the host can perfectly predict how the terrorists will behave. To be sure, terrorist groups often go out of their way to make themselves appear unpredictable. Most groups signal that they are fanatical, unwilling to negotiate, and have the capability to fight forever and impose significant costs on their opponents. The reality, of course, is that these claims are seldom completely true. However, since terrorists operate clandestinely, it is difficult to accurately predict to what extent they are willing to fight. Let us therefore assume that the U.S. and the host are uncertain if the terrorists will attack the center in response to the defensive strategy. One possibility is that the terrorists will be deterred and will stay in the periphery. Alternatively, the terrorists may be undeterred by the host's American support and choose to attack anyway. This indicates that the U.S. and the host know what the outcome of the game will be if the host chooses to either negotiate or adopt an offensive strategy, but they are uncertain what will happen if the host adopts the defensive strategy.

CASE 1. NEGOTIATION

Although negotiating with terrorists is often derided in the policy world, let us consider the value of such a decision. First, negotiation allows both the host and the terrorists to spare themselves the cost of a military encounter. Rather than wasting these resources on fighting, both the terrorists and the host should be better off striking some deal that reflects their balance of power and the likely outcome of a conflict. For example, suppose the host and the terrorists attempt to form a power-sharing agreement that divides seats in a legislature between the two sides. If the host has a 65% chance of defeating the terrorists in battle, an efficient settlement should grant the terrorists 35% of the seats in the legislature while keeping 65% of the seats for the host. Similarly, if the host only has a 25% of defeating the terrorists, it should grant the terrorists 75% of the seats and keep only 25% for itself. This deal reflects the balance of military power between the two sides, but it is advantageous since it saves the resources that would be lost from fighting.

Suppose the host makes an offer to the terrorists that reflects the balance of military power between the two sides. The terrorists then have the choice to accept, directly attack the host government to destabilize it at its center, or reject the deal. To be sure, the terrorists should prefer winning the conflict outright and seizing total control of the territory. However, fighting is costly, risky, and burns resources. Alternatively, the terrorists may stay in the periphery and hope for a better deal later as their capabilities improve. This requires the terrorists to accept nothing in the short term and risk that their capabilities will improve in the long term. This is certainly not a guarantee, as numerous terrorist groups fall victim to infighting, organizational dysfunction, mass defections, or police capture. Since the future is uncertain, and the terrorists instead are guaranteed to obtain some benefits through negotiation, *the terrorists are always better off accepting a negotiated settlement immediately*. The only reason terrorists can reject power-sharing deals that reflect the balance of power between their group and the host is if they are irrational. The popular literature often portrays terrorists as irrational, indicating that this explanation is plausible.¹⁶ However, while individual

terrorists may be irrational, the scientific literature strongly suggests the opposite about terrorist groups and their leadership.¹⁷ These individuals appear strategic and rational in pursuing their policy goals. If this is true, continuing to fight is irrational, and strategic terrorist leaderships should accept power-sharing deals. In fact, they may often welcome such deals, particularly in cases where the host state is relatively weaker. For example, if the host only has 15% chance of defeating the terrorists in combat, a negotiated settlement would likely yield the group somewhere close to 85% of the spoils. In these cases, where the host state is weaker, terrorists therefore may gain substantially from negotiation.

We therefore see that negotiating with the terrorists is relatively easy if the host offers a settlement that accurately reflects the balance of power between the two sides. This should spare the host, the terrorists, and the civilians within the host's territory of the damage from internal conflict. However, while negotiation is valuable for both the host and the terrorists, it is not so for the U.S. Since the goal of the U.S. is to keep the terrorists out of power, *power-sharing agreements are not in the interest of the U.S., even though they are efficient*. Once the terrorists gain autonomy within the host's government, they may alter the status quo in a way that compromises U.S. interests within the host's territory. For example, suppose Saudi Arabia agreed to restrict the ability of American oil giants to exploit oil in the Ghawar oil field of the Eastern Province to appease Shi'a minority groups.¹⁸ In theory, a deal is efficient. The Saudis obtain peace and the Shi'ites gain extra revenue. However, this deal would increase the price of crude for the U.S. and therefore force oil giants to raise oil prices, which would weaken the U.S. dollar. Even worse, if such a deal were to become permanent, or if Shi'ites demanded that the Saudi monarchy restrict U.S. firms' access to the Eastern Province, this would create a cascade that would significantly harm the American position in Saudi Arabia. We therefore see that while negotiation between host states and their terrorists may be the best way to resolve these conflicts, and that it spares losses in human life and resources, these deals may not be preferable to the U.S. These changes would further undermine the justification for continuing to provide military support to the Saudi kingdom in the first place. Therefore, once the

terrorists alter the host's policies, the U.S. no longer derives a benefit from maintaining military cooperation. The U.S. will therefore respond to any deal with the terrorists by suspending military aid and cooperation with the host.

The strategy of negotiation therefore creates several risks for the host state. Since the U.S. is guaranteed to suspend its military support once the terrorists are given concessions, the power of the host relative to the terrorists will fall following the settlement. For example, in the case above, the U.S. would likely cut some of Saudi Arabia's military support should it negotiate with terrorists in Ghawar. As a result, the kingdom's power would precipitously decline relative to Shi'a militants in the Eastern Province. Should this power shift occur, the probability that the Shi'a militants could defeat the Saudi police and military forces would rapidly increase. This in turn would destabilize the original settlement between the Saudis and the Shi'a militias. For example, with U.S. support, the Saudis may have a 60% chance of disarming the Shi'a militias. An efficient negotiated settlement would divide control of the Eastern Province, allowing the Saudis to keep control of 60% of the territory while granting the Shi'a militants the remaining 40%. However, if the Saudis lose their American military support, the probability that the Saudis could disarm the Shi'a militias may fall to 30%. In this case, the original deal that split the territory is no longer stable. With the U.S. out of the picture, the Shi'a militants may no longer accept only 40% of the territory and may instead demand 70%. As a result, the militants may abrogate their commitments and begin an offensive against the kingdom to seize this additional territory.

We therefore see that negotiating creates a commitment problem and a substantial risk for host states. If the host with American support offers a deal that reflects the balance of power with its terrorists, but the U.S. will withdraw its support following this deal, the terrorists may be unable to credibly uphold the terms of the agreement. This problem becomes progressively worse if the host is critically dependent on the U.S., given that losing American support will create a larger power shift in favor of the terrorists. As a result, the more aid the U.S. provides, the less credible any deal is between the host state and the terrorist group.

By contrast, if the U.S. were to offer no military aid at all, and the host offered the terrorists a deal that reflected the actual balance of power between itself and the group, the negotiated settlement would be stable and the terrorists would fulfill it. Unfortunately for the U.S., such a deal would mean a loss of cooperation with the host and would undermine this state's cooperation in the American-supported petrodollar system.

CASE 2. HOST ADOPTS DEFENSIVE TACTICS

Let us now consider the alternative strategy of adopting the defensive posture. In this case, the host makes no concessions to the terrorists but encourages lower-level members of the terrorist groups to accept its sovereignty. The host further uses American military support to build defenses at its center but takes no offensive military actions to disarm the terrorists. This represents a gamble by the host that the terrorists will either be deterred from attacking the host at its center or will be defeated if they do. If the terrorists do attack the center, however, they will be met by the host's American-supplied military. If the terrorists choose not to attack the center, they will stay in the country's periphery. Since the government does not attack them directly, it is possible that one or more factions vying for power will begin to compete and might possibly tear the movement apart.

In the absence of U.S. military assistance, hosts recognize that they are unlikely to prevail in a conflict with the group and should therefore prefer negotiating a power-sharing deal that allows them to hold onto some power versus none. Weaker hosts will therefore prefer negotiation if they receive no assistance from the U.S. However, if the U.S. bolsters a host's capability, a weaker host may prefer adopting the defensive posture over negotiating. If such a host adopts the defensive strategy, and the terrorists attack the center, the host has a greater chance of defeating the terrorists with American military support. If the terrorists instead choose not to attack the center, the leadership remains the sole sovereign over the territory. On the other hand, if the host negotiates, it would be forced to split the territory's benefits between its followers and those of the terrorists. We therefore see a key effect

of the U.S. security guarantee: *American support undermines negotiation between host states and terrorist challengers*. Rather than negotiate, the provision of American support allows hosts to consolidate their power, keep the benefits of the territory for their followers, and demand that the terrorists surrender unconditionally.

As an example, consider the case of the U.S.-Yemeni relationship. In 2000, al Qaeda operatives based in Yemen launched an attack against the U.S.S. *Cole*. This attack was troubling in that it suggested that al Qaeda was willing to directly challenge the U.S. military and was undeterred by the significant presence of U.S. forces in the region. The U.S. responded by providing Yemen with greater military and economic support to fight al Qaeda. Yet, the terrorist group appeared stronger than ever in 2010, despite nearly a decade of American military support for Yemen. This would suggest that the policy of supporting Yemen against al Qaeda was a failure. However, let us consider the counterfactual. Since the Yemeni government is not a particularly stable state, and al Qaeda appears relatively stronger in Yemeni territory, an alternative strategy might have been for President Saleh to negotiate with al Qaeda. Such an agreement may have allowed al Qaeda to stage attacks from Yemeni territory so long as the group did not directly target Saleh or his government. On the other hand, since the U.S. provided Saleh with support, Yemen remained cooperative with the U.S. and refused to grant al Qaeda sanctuary. This case demonstrates that while U.S. military aid was unsuccessful at disarming al Qaeda, it was successful in keeping Yemen loyal to the U.S., and it may therefore be considered successful.

CASE 3. HOST ATTEMPTS OFFENSIVE

We see that U.S. support gives hosts an incentive to avoid negotiation. Ideally, U.S. support should encourage hosts to engage in an offensive to decisively end the conflict. However, since the host faces military costs in an offensive, but can avoid these by adopting a defensive strategy, the host should strictly prefer taking American aid while doing nothing to disarm their terrorists. In other words, from this perspective,

U.S. military support should not only discourage hosts from negotiating, it should also discourage hosts from disarming their terrorists. This demonstrates that military aid discourages negotiation, which accomplishes an American objective but discourages host regimes from fighting terrorism, which is seemingly antithetical to American strategic interests.

The model reveals a perverse incentive created by the war on terror. Although the U.S. was committed to defeating terrorists, it often found its host partners less enthusiastic, committed, and willing to take casualties. In some cases, the U.S. found that the hosts it was empowering appeared to be protecting their terrorist adversaries. We see a logic for why: disarming the terrorists is costly, but perpetually deterring them affords host leaders the chance to remain in power indefinitely with minimal risks and no cost.

Nowhere is this behavior more observable than in the case of Pakistan following 9/11. During Musharraf's rule, the U.S. supplied a substantial amount of economic and military support to Pakistan, with the intention of building Pakistan's capability to fight terrorism in its northern territories. This aid continued despite numerous reports that the aid was being used by Pakistan to bolster its military capacity against India and despite considerable intelligence that Musharraf was doing little to remove Taliban sympathizers from the Pakistani ISI (the national intelligence agency). At first glance, one might ask why the U.S. continues to supply Pakistan with military aid, given that there is no evidence that Pakistan is taking any action to disarm the Taliban. However, if the U.S. suspended military support to Pakistan, it is very likely that the government would reach some negotiated settlement with the Taliban that would allow the group free reign in the north. Such an agreement might also enable Pakistan to provide greater military support to the group so that it could protect its interests in a future Afghanistan, all while receiving a seemingly perpetual American annuity.

WHY AMERICAN SUPPORT CONTINUES DESPITE HOST ABUSE

Given that the provision of military support discourages host states from fighting terrorists, an appropriate question is: why does the U.S.

continue this policy? To answer this question, we must consider what the outcome of failing to provide military support would be. According to the model, host states would likely respond to the loss of U.S. military support by negotiating with their terrorists. If this occurs, the terrorists will enter the host government, and American interests within the host are likely to be compromised. It is easy to imagine that if either Afghanistan or Pakistan destabilized, and a fundamentalist government took control of the territory, the incumbent presidential administration would be labeled as an incompetent foreign policy failure. One need only look at the reaction to the “loss of China” during the Truman administration and the punishment dealt to the Carter administration following Ayatollah Khomeini’s takeover of Iran to imagine the political fallout from the destabilization of an American-supported host. In the cases of Afghanistan and Pakistan, the consequences may be far worse, given the ten-year commitment of American lives and treasure to the region. This fear of a political backlash, coupled with the relatively low cost of supplying military aid and the likelihood that the increased political violence will be confined to the host state’s territory, makes it seem reasonable that any presidential administration would prefer continuing to provide military support to host states in the name of protecting American security and economic interests.

We can compare this dynamic to the political discourse during the Cold War. During this period, American policymakers were frequently charged with being “soft on Communism” or “Communist sympathizers” if they tolerated the presence of socialist movements within the governments of the newly independent states. This label was considered political suicide at the time, and it seemingly gave politicians an incentive to signal hawkish attitudes toward revolutionary movements in general. As a result, presidents from Truman to Reagan all exhibited a willingness to support autocratic regimes with abysmal records on human rights simply to prevent Communist insurgencies from gaining a place in the governments of their host states. In the present day, American politicians often signal a hard line toward Islamic movements to demonstrate their resolve against terrorism. This produces a situation where the U.S. appears willing to support clearly antidemocratic regimes

to prevent Islamists from entering into the governments of these host states, solely to avoid the political punishment associated with “losing” states. This is particularly true of strategically important states, such as Pakistan and Saudi Arabia. In these cases, the model predicts that the U.S. will continue providing military support to host states, even if these host states would refuse to negotiate with terrorists without it. Unfortunately, this results in a prolonging of terrorist campaigns. If a host refused to compromise with terrorists but did not receive military aid, it is likely that some groups, particularly extremist ones with tastes for violence, might attack the host at the center—and would likely be disarmed as a result. However, American military support is likely to deter even these types of terrorists from attacking the center, thereby prolonging the terrorist campaign.

It is easy to argue that this type of U.S. response is reactionary and that it identifies non-elites in “terrorist” movements as more aggressive than they may truly be. After all, if a deal is possible between the host and a terrorist group, why couldn’t the U.S. also strike a deal with the terrorists to protect its economic interests? Certainly, the terrorists might agree to protect the interests of the U.S. upon entering power, which in turn might give the U.S. more reason to restrain the host from increasing their repression. The problem with these guarantees on the part of the terrorists is that they are simply not credible. From a position of weakness, when the terrorists are outside of the government, they are likely to tell the U.S. exactly what it wants to hear. Once power is achieved, however, there is simply no guarantee that these terrorists will not ultimately undermine the position of American multinationals or compromise the dollar as the standard of exchange.¹⁹ This suggests that if a revolution takes place in an American-supported host, it is very unlikely that the group that comes to power will continue to protect American interests.

Historically, the U.S. watched in several cases as politicians promising reform assumed control over the governments in host states, only to see these reformers fundamentally threaten American interests. For example, Jacobo Árbenz Guzmán was elected president of Guatemala in 1951 on a leftist platform of land reform, unionization, and minimum-wage laws.

Each of these reforms presented a threat to the traditional American dominance of Guatemalan politics. More specifically, these reforms threatened the economic interests of the U.S. Fruit Company, which effectively controlled 42% of Guatemala's land and maintained a near monopoly on Guatemala's infrastructure, all while being exempted from taxes. Once Árbenz took over the reins of power in Guatemala, nothing short of a coup could stop him from implementing these policies that were detrimental to both American and economic interests. This case demonstrates that there is a substantial risk to the U.S. when facing reformist leaders in that these individuals may compromise the strategic status quo that is disproportionately beneficial to the U.S.

To make matters worse, these leaders may often signal initially that they are willing to cooperate with the U.S. Take, for example, the behavior of Fidel Castro following the Cuban Revolution. After his initial victory, in a speech on July 17, 1959, announcing his takeover of the Cuban government Castro adamantly denied that he was a Communist. Castro stated, "I know the world thinks of us, we are Communists, and of course I have said very clear that we are not Communists, very clear." Following this declaration, many American policymakers believed that they could cooperate with Castro, particularly given that Castro's predecessor Fulgencio Bautista was quite repressive, corrupt, and embarrassing to the U.S. However, history reveals that Castro misrepresented his true intentions. Soon after, Castro embarked on numerous land reforms, which involved confiscating the private property of Americans—who owned about 75% of the island. Although Castro initially appeared willing to cooperate with the U.S., events soon proved otherwise. This demonstrates yet another U.S. concern with reformist leaders: even if they appear cooperative, it is unclear whether they will remain cooperative.

These problems may not stop within the borders of the state in conflict. Reformers may seek to encourage other non-elites in other states to rebel against the American-supported status quo. Consider the case of the Iranian Revolution of 1979. This revolt largely occurred in response to several of the Shah's economic reforms. To pacify the rebellion, the Shah initially made some concessions to the protestors. However, the fact that

the Shah was willing to negotiate signaled to the dissident groups that his regime was weak. The protests therefore worsened, culminating with his expulsion at the hands of Ayatollah Khomeini. This was a critical blow to the U.S., as Iran had long been a key ally in the Middle East and sat atop the third-largest oil reserve in the world. Any action by Iran to price oil in another currency could potentially threaten the U.S. system of dominance. Although Saudi Arabia made up for the loss of Iran in the revolution, the conflict did not stop there. Khomeini appeared to actively support dissident groups throughout the Middle East to further destabilize American strategic interests. Iran further gave support to Shi'ites living within Saudi Arabia in the east, posing a critical threat to the petrodollar. Iran further provided some degree of inspiration to marginalized Shi'ites in Bahrain, which was home to the U.S. Fifth Fleet. Compromising the kingdom would destabilize the petrodollar, and compromising the home of the Fifth Fleet could prevent the U.S. from projecting its military power to provide the security guarantee needed to sustain the petrodollar system. In the case of the Iranian Revolution, radical change within the state not only threatened the position of American firms but also could potentially destabilize the entire petrodollar system.

Faced with this possibility, it is perhaps unsurprising that the U.S. remains committed to protecting the peg between the U.S. dollar and global energy trades from any and all militant challengers. Any rebellion in the world that may threaten this critical U.S. interest is viewed as a national security threat, but particularly those in the Middle East, given that these rebellions may threaten the system of petrodollar recycling that is critical to American hegemony. If a group nationalizes the holdings of multinationals, or indicates that it may stop accepting dollars altogether, a shock may occur in the global economic system that could potentially destabilize it. While one could argue that this is far-fetched and perhaps unlikely, the U.S. does not seem prepared to take this risk, given the potential for extreme consequences and the inability of dissident movements to credibly commit to restraining their ambitions and their revolutions.

Again, it is very easy to condemn the U.S. for this behavior. However, before doing so, it is essential to understand how much this benefits all

Americans. If investments in the U.S. lost their profitability relative to other markets, demand for dollars might decline. This would be particularly true if major revolutions in energy-producing states—such as Iran, Afghanistan, or Saudi Arabia—took place. If these regimes were to fall, and a new group took power and began pricing their energy products in a currency other than dollars, international demand for dollars would fall. This means that the U.S. would have to raise interest rates to gain access to capital to finance the budget deficit. Higher interest rates would also mean that ordinary Americans would face greater difficulties purchasing homes, cars, and other large-ticket items. At the same time, higher interest rates would force the U.S. government to either increase taxes to cover the payments, cut back on social programs, or both. These cutbacks would likely cause unemployment to spike while the dollar depreciates. In short, if the chain reaction that compromises American hegemony takes place, the U.S. economy would experience a correction that would harm the poor and middle classes in the U.S.

These consequences, and the political aftereffects of a potential economic downturn, make it a risk that no American president would dare take. If the choice is between risking negotiation versus simply supporting the regimes of host states and refusing to compromise with terrorists, it is clear what the optimal choice is. This is particularly true given America's preponderance in military power, and the reality that most of these rebel movements are likely to collapse relatively quickly. The fact that many of these groups are forced to resort to terrorist violence only reinforces the idea that they are weak and unable to consolidate territory. Therefore, we can understand the hard line that the U.S. draws against terrorism as largely an effort to prevent any changes to the lucrative status quo that preserves American political and financial hegemony.

CASE EXAMPLES. NIGERIA AND HOSNI MUBARAK'S EGYPT

To illustrate these dynamics, let us consider the cases of two American-supported host states: Nigeria and Egypt. While Nigeria is a key global supplier of oil and an OPEC member, Egypt is home to the Suez Canal,

one of the critical transit routes for energy supplies to reach markets in the West. The argument predicts that neither regime should have taken extensive steps to disarm the terrorists within their territory. These hosts would instead engage in corrupt and abusive behavior, all while using the threat of terrorist destabilization to force the U.S. into maintaining support. The argument would further predict that the U.S. would maintain support for these two regimes, despite their behavior, given that Nigeria is a key supplier of energy and Egypt is a critical transit state.

Let us first consider the case of Nigeria. The oil shocks of the 1970s, along with high levels of corruption in the Nigerian government, contributed to its fiscal crisis in the late 1970s. The IMF and other international institutions declared that the Nigerian state's economic policies created excessive government spending, enabled inefficient state-owned enterprises to survive, and fed high rates of inflation. The Nigerian government therefore needed to make structural reforms in its economic policies to continue receiving loans from the IMF. These reforms required Nigeria to balance its budget, stabilize the naira at a competitive exchange rate, divest itself of state-owned enterprises, and pursue export-led growth, particularly in its abundant energy sector. After seizing power in a coup, new president Badamasi Babangida began Nigeria's structural adjustment in 1986 by deregulating the agricultural market, doing away with price controls, and allowing Nigeria's currency to float on the market. Immediately, the value of the naira plummeted, effectively making Nigerians poorer relative to the rest of the world and less able to purchase goods from abroad. However, the fall of the naira made investment in Nigeria more attractive because of the consequent lower labor costs, and it made Nigerian exports more competitive on the world market. In 1999, the new Nigerian president Olusegun Obasanjo took steps to privatize state-owned oil companies to attract additional investment. Exports and foreign investment into Nigeria surged, which, according to supporters of structural reform, would have the effect of alleviating many of Nigeria's economic and political problems.²⁰

These results did not materialize. By the late 1990s, the number of Nigerians living on less than \$1 per day rose from approximately 28.9% to 70.2% of the working population, and the number of Nigerians living

on less than \$2 rose to over 90%. Because of weaker labor unions, industrialists in Nigeria had no need to increase employment or reinvest the profits in their factories. Instead, with lower taxation and relaxed regulation of financial sectors, Nigerian capital could simply transfer the excess profits into foreign investments, including investments in the U.S. The result of this system was that those in control of Nigeria's key export sectors, particularly oil, experienced considerable increases in wealth, whereas the larger portion of Nigeria's population found themselves with lower wages, fewer jobs, fewer safety protections, a vastly weakened social safety net, and an increasingly corrupt government incapable of responding to their basic needs.

The program of structural adjustment was met with mass protests. Nigeria saw numerous riots from former employees of state-owned enterprises, university students, and local businesses. The Nigerian government found itself in conflict with the Ogoni population in the southeast part of the Niger delta where its oil reserves were located. The Nigerian government asserted in 1979 that it had full ownership of all of Nigeria's territory and it could decide what compensation to award residents if it needed the land. The government's efforts to assert control of the territory and its oil wealth led to an insurrection involving the Movement for the Survival of the Ogoni People (MOSOP) in the early 1990s. The group demanded that oil companies that were beginning to invest in the area, including Shell and Chevron, negotiate with them on future drilling and compensate the people of the territory with some of the oil profits. Nigeria further faced unrest from the Ijaw Youth Council (IYC), which mobilized in the delta under what became known as Operation Climate Change. The organization attempted to bring attention to the environmental degradation in the Ijaw territories in the Niger delta. In response, the Nigerian military pushed into these regions and began a violent drive to pacify the territory. In one high-profile event, the Nigerian military attacked the village of Odi in the oil-rich Bayelsa state on November 20, 1999, killing scores—or perhaps even many hundreds—of civilians.²¹

Despite these repressive actions, it is easy to see why the U.S. sided with the Nigerian government. U.S. was Nigeria's largest trading partner,

and Nigeria was an OPEC state and a leading supplier of oil to the U.S. Although it certainly appears the U.S. could compel the Nigerian government into curbing its human rights abuses in the delta, let us consider the potential consequences of this decision. If the U.S. were to protect groups such as MOSOP and the IYC, along with others in the Niger delta, these groups would likely demand a greater share of Nigeria's oil profits. This in turn would make the trade less lucrative for both the Nigerian government and American multinationals. The second possibility that appears more dangerous for American strategic interests would occur if U.S. threats pushed Nigeria to increase its trade with China or the European Union. Either the E.U. or China (or both) could push Nigeria to begin pricing its oil in euros or renminbi (RMB), in violation of OPEC's system. The Nigerian government might have reason to comply with such a request if most of its trade shifted to these states. Nigeria's decision to take this action as one of Africa's leading oil producers might encourage other states to do the same. We therefore see that the simple act of opposing Nigeria's repression of dissident groups might lead to significant costs for the U.S., particularly with intense competition for markets from the E.U. and China. On the other hand, if the U.S. continued providing Nigeria with defense capabilities, the U.S. could minimize the risk of the rebellions in the delta while simultaneously encouraging Nigeria to continue the status quo policy of pricing oil in dollars. Although the U.S. has no ideological dispute with the groups in the delta, the need to protect the trade for energy in dollars causes the U.S. to enter into a conflict with Nigeria's militant groups, which the U.S. refers to as "terrorists."

By 2006, these groups coalesced into the Movement for the Emancipation of the Niger Delta (MEND) in 2006. The dispute between the Nigerian state and the MEND rebellion was settled in 2009 with a government amnesty. The Nigerian state offered cash payments to senior MEND leaders and job training for some of the fighters in their movement. This split caused some degree of infighting within MEND, ultimately eroding the movement and causing it to collapse soon after the amnesty. However, the government made no offer to restrict the behavior of multinationals, clean up the damage from oil

spills, or compensate the Ogoni or the Ijaw peoples for the environmental damage. In short, the amnesty resembled more of an effort by senior leadership to “cash in” from rebellion, and it did nothing to shift the policies of Nigeria in a way that would undermine the profits made by multinationals in the region. While Nigeria held the line, local discontent and the risk of a new MEND rebellion remained high, justifying continued military support from Washington to the Nigerian state.

A similar story can be told about Hosni Mubarak’s Egypt. Following the 1973 Yom Kippur War, President Anwar Sadat embarked on a program to improve Egypt’s relations with the U.S. He began by expelling Soviet advisors from his territory. Sadat further announced that he would begin a series of economic reforms known as “Infitah,” which encouraged privatization and the removal of the state’s involvement in numerous sectors of the Egyptian economy. Sadat also took the very politically unpopular step of signing a peace treaty with Israel in 1979, which led to his assassination two years later. Subsequent to Sadat’s death, Vice President Hosni Mubarak assumed the presidency; he expanded the Egyptian State Security Investigation Service to crack down on fundamentalist organizations that stood in the way of reform. Mubarak continued Sadat’s program by deregulating state-owned enterprises and opening to foreign investment. Mubarak further initiated cutbacks in social services, coupled with decreases in taxation and emphasis on law and order. State-owned enterprises were typically auctioned off to Mubarak’s political allies. The Egyptian currency plummeted, serving as a boon to capital in that it improved exports, and it improved tourism. Mubarak’s families amassed billions and the military entered every aspect of the Egyptian economy. The top earners in Egypt’s economy saw their share of the nation’s wealth increase.

Yet, for most Egyptians, prices increased, wages fell, labor unions were suppressed, the health care system was dismantled, and income inequality increased. These falling living standards gave support to the claims of numerous groups that the regime was incredibly corrupt and hoarding the state’s resources. In addition to the Muslim Brotherhood,

rebel groups such as Al-Gama'a al-Islamiyya and Talaa'al al-Fateh emerged to protest the regime's corruption and began engaging in acts of violence to weaken and destabilize the regime. These attacks included six assassination attempts against Mubarak himself. Mubarak quickly denounced these groups as "terrorists" that threatened Egypt's economic progress. To fight these groups, Mubarak refused to suspend Egypt's emergency law, which allowed him to suspend democratic competition for the presidency and suppress his political opponents. Mubarak consistently declared that this repression was necessary to continue the program of reforms and suppress the threat of terrorism, which he equated with his domestic opponents.

Despite clear evidence of human rights abuses, Mubarak remained a critical U.S. ally and remained unchallenged until the Arab Spring of 2011. Consistently, the U.S. faced a choice of whether to restrain Mubarak's repression, and thereby enable opponents of the very lucrative gains from Egypt's reform, or whether to support Mubarak's dictatorial rule. The Iranian Revolution of 1979 remained in the minds of American policymakers, who were determined not to let another Middle Eastern ally fall to the forces of fundamentalism. While Iran was critical to the U.S. for its oil supply, Egypt was critical because of its control of the Suez Canal. Approximately 8% of world trade passes through the Suez Canal along with 5.5% of the world's oil output. If Egypt were to fall into the hands of the coalition of fundamentalists in the territory, these groups could potentially shut the canal down or begin a guerrilla campaign against Israel, both of which challenge American security interests. These consequences give the U.S. little choice but to keep dissident movements suppressed and appease the Egyptian regime, which for most of the period 1981–2010 involved ensuring that Mubarak remained in power.

CONCLUSION

Since 9/11, American policymakers have advocated for developing the capacity of governments that host terrorist groups. This strategy has argued that if terrorists thrive in weak state environments, the

solution is to build weak states into strong states so terrorists cannot function. This strategy of using military aid to fight terrorists created a series of perverse incentives for the host states of the energy market. Since the U.S. needed to guarantee the security of host states to protect the petrodollar system, and would increase military aid if host states faced viable terrorist threats, the hosts had no incentive to disarm their terrorists. The results seemingly speak for themselves: the policy of providing host states with military aid has led to increased terror attacks, fatalities from terrorism, terrorist groups, and prolonged terrorist campaigns. Yet, given the larger American strategic aim and lucrative nature of dominating the global energy market, it appears the U.S. was willing to accept these results. Even as terrorist violence escalated, the U.S. was paradoxically accomplishing its key strategic objective.

However, since U.S. strategy encouraged hosts to allow terrorist groups to survive, terrorist violence in each of these states soon began spiraling out of control. In addition to the catastrophic human damage caused by civil wars, the damage of these conflicts affected both the strategic and economic interests of the U.S. The escalating levels of terrorist violence in Iraq virtually shut down the country's ability to export petroleum. The loss of Iraqi oil had two consequences. First, the lack of revenue was making it impossible to rebuild the country or attract investment in the face of unremitting civil violence. Second, the loss of Iraqi oil was coming at a time where global supplies were strained and demand was increasing. Given the limited supply, the price of oil increased in the mid-2000s.

Figure 3.6 indicates that the price of Persian Gulf oil rose from \$36.03 per barrel in January of 2005 to a high of \$57.34 in August before falling to \$48.77 in December. This rise represented a 35% increase in the price of oil throughout the year, and a 59% increase from December 2004. This was considerably higher than the 2.5% increase in the price of oil per barrel between 2002 and 2003, and the 12% increase from 2003 to 2004. This was the nightmare scenario for policymakers—the increase in oil prices indicated that the dollar was losing value to inflation. Additionally, although Afghanistan maintained considerable mineral

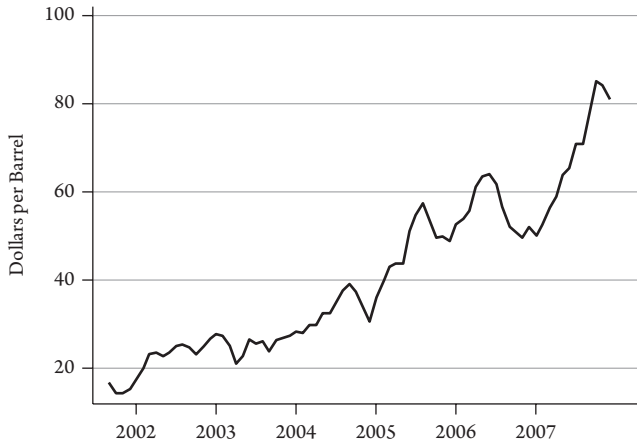


Figure 3.6. The Price of Persian Gulf Oil per Barrel in USD.

Note. Data shown here illustrating U.S. FOB costs of crude oil from Persian Gulf countries (in dollars per barrel) is from U.S. Energy Information Administration [2015].

riches and plans existed for constructing a pipeline to Central Asia, no development was possible because of the growing Taliban insurgency in Afghanistan and Pakistan. The inability to pursue reconstruction in Afghanistan indicated that the payoff to the U.S. for opening new markets in Central Asia was being lost. Although it was possible to write off these gains, the American security position in the Persian Gulf was also being diminished because of the inability of the U.S. to control the situation in Iraq and increasingly aggressive Iranian military activities supported by Ayatollah Khamenei and President Mahmoud Ahmadinejad.

By 2006, American policymakers seemed dead set on ending the Iraq war altogether and terminating U.S. involvement. This political mood placed the host states of the energy market in a precarious position. The hosts maintained control over their territories, even as their terrorists became stronger, as a result of American economic and military support. If this support were to end, the hosts would then be left to face much stronger terrorists that could become more aggressive. The growing doubt about the willingness and the ability of the U.S. to continue the war in Iraq was now creating a stark situation for the host states in the region. They could potentially face more powerful

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terrorists and desperately need U.S. help, but at their moment of need, the U.S. might be unwilling or unable to fulfill its security obligations. For the first time since the start of the war, the states of the energy market, and the terrorists fighting them, began planning for wars without the U.S. military.