

# National Responses to Transnational Terrorism: Intelligence and Counterterrorism Provision

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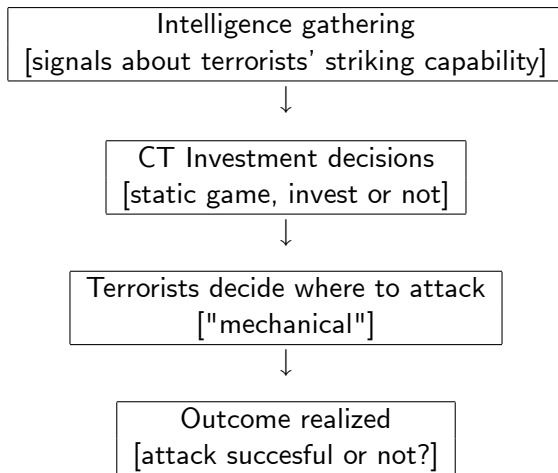
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- Transnational terrorism:
  - Counterterrorism provision = strategic situation between countries
  - Standard results:
    - defensive/domestic CT oversupplied (neg. externalities)
    - offensive/pro-active CT undersupplied (pos. externalities)

(Sandler and Lapan 1988, Sandler and Siqueira 2006 + others)
- This paper: Intelligence gathered by national agencies
  - → Private information
- Consequences for provision of defensive/domestic CT?
- Sharing of intelligence?

# The Model

2 countries, 1 transnational terrorist organisation



# The Model

- With complete information:

	Invest ( $I$ )	Not Invest ( $N$ )
Invest ( $I$ )	$-\frac{p}{2}D - C, -\frac{p}{2}D - C$	$-C, -D$
Not Invest ( $N$ )	$-D, -C$	$-\frac{D}{2}, -\frac{D}{2}$

$D > 0$ : Damage from succesful attack

$C > 0$ : Cost of investment

$p \in (0, 1)$ : Prob of succesful attack (if investment)

- National Intelligence: Uncertainty about  $D$ , private signals  $d_i$

$$\rightarrow E[D|d_i]$$

- Benchmark: Both signals commonly known

$$\rightarrow E[D|d_1, d_2]$$

(CT oversupplied because game is a PD for a range of  $D$ 's)

- Equilibrium:

- Benchmark:  $(Invest, Invest) \Leftrightarrow E[D|d_1, d_2] > 2C$
- National Intelligence: Cut-off equilibrium,  $i$  invests  $\Leftrightarrow d_i > x$

- Results:

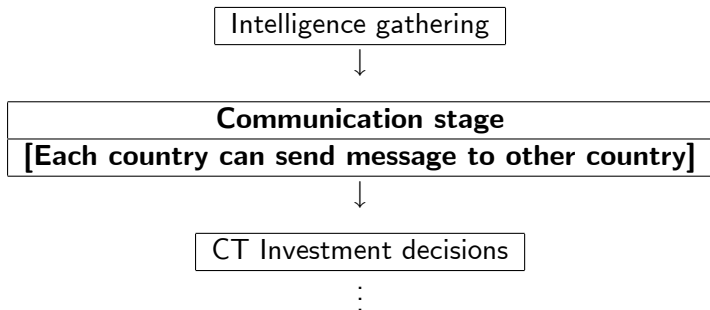
- National Intelligence  $\Rightarrow$  Countries invest for lower expected capabilities of the terrorists ( $E[D|x] < 2C$ )
  - Does not imply more overprovision with Nat Int:

$$E[D|x, x] \leq 2C ?$$

- If  $E[D] \geq 2C$ : Nat Int  $\Rightarrow$  more overprovision
- If  $E[D]$  "very low": Nat Int  $\Rightarrow$  less overprovision

# Intelligence Sharing?

- Extend National Intelligence game by a communication stage:



# Intelligence Sharing?

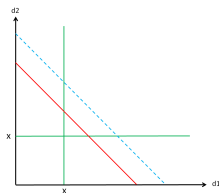
- 2 cases:
  - Cheap talk messages
  - Verifiable messages possible: Country  $i$  can either credibly reveal  $d_i$  or send no message
- What is most realistic?
  - Some pieces of intelligence can in principle be communicated verifiably, others not
  - Intel agencies reluctant to share details about sources and methods (Walsh 2009)
- Results:
  - Cheap talk  $\rightarrow$  no revelation
  - Verifiable messages  $\rightarrow$  full revelation

- Intelligence is gathered on the national level
- How does this affect domestic counterterrorism provision?
- In particular: Does it make suboptimal provision due to negative externalities better or worse?
  - Unless  $E[D]$  "very low": Worse!
- Possibilities for credible intelligence sharing?
  - Only if verifiable sharing is possible!

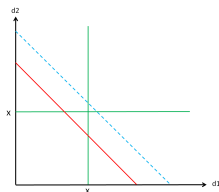


## Appendix: Figures

- If  $E[D|x, x] < 2C$  (more overprovision with Nat Int):



- Sufficient condition:  $E[D] \geq 2C$
- If  $E[D|x, x] > 2C$  (less overprovision with Nat Int):



- Necessary condition:  $E[D] < 2C$