

The Costs of the War on Terrorism: Revisiting the Methodology used for Cost Estimation in Pakistan

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Abstract

Pakistan paid a huge 'cost' for war on terror. Here, the term 'cost' refers to the economic cost. In policy and media discussion, only the qualitative aspects of the cost for war on terror have been discussed. As far as the quantitative aspect of this cost is concerned, there have been little attempts, if any, to calculate such cost. There is, however, only one official report that estimated the cost of war on terror, i.e. Economic Survey of Pakistan, 2010-11. However, there are significant methodological issues with this estimation. This article discusses the methodological issues in the estimation of cost for war on terror.

Keywords

War on Terror, Cost, Methodology, Fight, Pakistan

Introduction

In the backdrop of the All Parties Conference (APC) convened by the Government of Pakistan on 9th September, 2013, it is appropriate to revisit the question of the costs and benefits of the war on terror for Pakistan. For policy makers, there is a dearth of quantitative material to consider; they usually have differing qualitative narratives emanating from official and unofficial sources¹. On the quantitative side, normally there is only access to statistics related to registered and reported terrorism cases, and the number of dead and injured civilians². The only official publication on the subject is a special report within the Economic Survey of Pakistan 2010-11(ESP 2010-11)³, which showed that the total cost of war on terror from 2001-02 to 2010-11 to be approximately US \$ 67.926 billion⁴. The participants of APC 2013, however, chose not to express themselves quantitatively. Instead their preferred mode of expression was to identify the qualitative vis-à-vis 'costs' of war on terror. Accordingly, the Resolution of APC 2013 recorded:

“There have also been colossal damages to social and physical infrastructure and huge consequential financial losses and adverse effects on our economy”⁵

Conversely, no 'benefits' of the war on terror were alluded to in the Resolution⁶. The preference of qualitative expression of 'costs' may be due to political and diplomatic reasons; however, it is a fact that there is little or no research by independent sources on the issue and this might well be one of the reasons for not

expressing the costs in quantitative terms. The situation, therefore, supports the need for serious quantitative research on the issue. This article, however, is not designed to fathom and quantify the 'costs' of the war on terror for Pakistan; it only proposes to explore and preface, to the extent possible, the methodology and framework for any such research in the future.

Literature Review

In Pakistan, on the official level, the two-page special section of the ESP 2010-11 forms the basis of any discussion. It may also be noted that after 2010-11, the subsequent issues of the annual ESP have omitted the special section on the costs of the war on terror as it relates to the Pakistan economy⁷. There is no dedicated portion in the ESP 2010-11 on the methodology of assessing or estimating the costs of this war. Two things are reported in the ESP 2010-11 about the assessment of the costs. First, the assessment of 'direct and indirect costs' was performed by an inter-ministerial committee constituting the Ministry of Foreign Affairs (MFA) and having representatives from Finance, Interior, Commerce and 'some other ministries' including representatives of two provinces that border Afghanistan⁸. Secondly, four assumptions that were the basis of the estimation of costs for the first year of the war on terror (2001) have been mentioned. The four assumptions were: (i) end of war by December, 2001; (ii) resumption of normalcy by January, 2002; (iii) ouster of the Taliban in Afghanistan (regime change) resulting in normalcy in Pakistan; and (iv) removal of an additional increase in freight cargo and war risk premium. It is also noted in the ESP that the assumptions have not yet been materialized, and the costs have continued to increase over the following years. Comprehensively addressing this subject is an article by Stiglitz (2012)⁹. The article focuses on the estimation of the costs of wars by the US in Iraq and Afghanistan. It addresses the methodological issues in assessing the costs and also tries to complete the picture by talking about the 'benefit' side of the equation. Without defining the term 'benefit' in the war on terror, the paper observes that assessing 'benefits' is 'difficult'¹⁰ and complex as two issues affect it, namely: first, the issue of choosing between threat diversion and threat destruction; and second, the endogeneity of opposition forces. On the other hand, the article argues that estimating the costs of war is 'easier' (though problematic in some elements). Before estimating the costs and while delineating the taxonomy of costs, the author divides all the costs into two broad categories, specifically: (i) economic costs and (ii) budgetary costs. In this sense, the methodology introduced by Stiglitz is conceptually sounder than the approach posed and used by the authors of ESP. Benmelech (2009)¹¹ focuses on the impact of suicide bombings and is related to Palestine-Israel conflict. The focus of the article is on economic costs on the country harbouring terrorism. Crawford (2013)¹² heavily relies on the methodology expounded by Stiglitz (2012); it takes

into account the costs incurred by the US in waging war in all the three countries, i.e. Iraq, Afghanistan and Pakistan. Like Stiglitz (2012), Crawford (2013) observes that the US has been fighting modern wars on the bases of resources generated by borrowing and if the interest due on the borrowing is added up to the cost estimation, the overall costs will further rise.

The Case of Pakistan

Legal Analysis of The Term 'war'

The Resolution of the APC in 2013 on terrorism has chosen to use the word 'war'¹³ while referring to the fight against terrorism. The usage may be politically correct, but legally it is problematic. The problem emanates from assuming that the discussion on the terminology of a 'war' on terror belongs to semantics and has no relevance in the pragmatic and real world. This assumption is flawed as legal consequences flow from the terminology employed to describe a concept. In case of 'war' on terror, the usage of the term, imports in all of the legal effects. For example, in the international law, there are two different sets of laws whose application is invoked by using the word 'war' in diplomatic and political statements. The set of laws that deals with 'the right to war' is called *jus ad bellum* and the set of laws that deals with 'the conduct of war' is called *jus in bello*;¹⁴ the former belongs primarily to the UN Charter provisions while the latter is called international humanitarian law. An analysis of the legal provisions contained in both the sets of laws reveals that the terminology of 'war' is certainly not universal.¹⁵ There is considerable difference of opinion in usage of the term. The UK, one of the most closely allied allies of the US, has certainly legally not used the term of 'war'¹⁶. The national law of Pakistan, as embodied in the national Constitution, has offered a separate set of rules for war and the President is authorized to proclaim an emergency in case of 'war'¹⁷, which implies that at least in Pakistan's context, the policy makers and the officials do not have the luxury to call the 'fight' against terrorism with the terminology of their choice as such statements have the potential of offering empowering circumstances to the President of Pakistan to exercise such provisions. The upshot of the discussion then is to urge the officials of Pakistan to carefully choose the terminology and to be cautious of the legal consequences of their words.

Estimating The Benefits

As noted above, Stiglitz (2012) stated that it is easier to estimate the costs of war as compared to the estimate of its benefits. In case of Pakistan, the stated goals of the war are not clear, therefore, any attempt at quantifying the benefits may not yield concrete and obvious results¹⁸. The latest APC in 2013 has once again given a 'chance to peace'¹⁹, which means that, if any, the methodology to estimate benefits will be quintessentially qualitative and not quantitative.

Estimating Costs

a. Concept of 'Costs' and the Taxonomy of Costs

The concept of costs is relative and defies definition. In the context of estimating costs in the fight against terrorism, the cost has clearly to be defined to precisely elucidate inclusions and exclusions. There is no universal taxonomy of costs related to terrorism. Stiglitz (2010) has used two types of costs: (i) budgetary costs (inclusive of resources spent to date, resources expected to be spent in the future, and budgetary costs to the government); and (ii) economic costs (which include micro-economic and macro-economic perspectives). Two other factors that have found emphatic elaboration by Steglitz vis-à-vis the US costs of the wars in Iraq and Afghanistan are the mode of financing the war and the role of the private sector (through contracts). In Pakistan's context, the mode of financing is instrumental and must be included at least in the explanatory notes on cost estimation.

b. Economic Survey of Pakistan 2010-11 Costs

The ESP has not elaborated the exact methodology for calculating the costs. It has used the words 'direct and indirect costs.' This report has raised and articulated the four assumptions, outlined above, that have been used as the basis of the calculations. Table 1²⁰ of ESP 2010-11 has considered the following as costs without elaborating much on the methodology:

Table I. Cost of War Estimate in 2001- 02 and 2010 - 11 (\$ Billion)

	2001 - 02	2010 - 11 (Est)
Exports	1.40	2.90
Compensation to Affectees	0.00	0.80
Physical Infrastructure	0.00	1.72
Foreign Investment	0.15	2.10
Privatization	0.50	1.10
Industrial Output	0.11	1.70
Tax Collection	0.25	2.10
Cost of Uncertainty	0.10	2.90
Expenditure Over run	0.11	1.60
Others	0.10	0.90
Total	2.72	17.82

Source : Ministry of Finance

The 'joint costs' shown in the Table 1 clearly are problematic²¹. No explanatory notes have been provided on the methodology. Besides, the categories of costs used are not clear. For example, the category of 'compensation to affectees' shows zero expenditure for the year 2001-02, while the same category has grown to US\$ 0.80 Billion in 2010-11; this is not verifiable as there is no definition of 'affectees' and there is no elucidation on the formula of compensation. Likewise, without showing the allocated costs, the ESP has chosen to reflect the 'expenditure over run,' which is not only ambiguous, but also ambivalent.

c. Methodology for Calculating Costs

As noted earlier, the new government of Pakistan is planning to come up with a new and more reliable figure on the costs of the 'war' on terror²². It is imperative to recommend and analyze any possible future methodology. The methodology for cost estimation will not be primarily different from the one provided by Stiglitz (2010); the methodology, however, is not easy to follow. For example, the national budget and provincial budgets in Pakistan do not clearly and fully reflect expenditure on different components of the criminal justice system. For example, the specific expenditures used on the police are difficult to pinpoint as it is listed in 'joint costs' under the category of 'law and order'. Likewise, the cost of the security of the courts and of the prisons and other installations is not reflected in the budget under the relevant headings. It is usually perceived that the role of the police has been transformed from investigation of criminal cases to exclusively providing security. In the same manner, the category of 'foreign investment' in Table 1 above again does not reflect exactly the impact on direct or indirect investment. The extant methodology of estimating cost that has been used by ESP 2010-11 refers to 'direct and indirect costs' without clearly spelling out the difference between 'direct' and 'indirect' costs. In view of the above, any future attempt by Pakistan to estimate the costs of the 'war' on terrorism should include:

1. A detailed note on the methodology of the estimation of the costs and should specifically clarify the inclusions and exclusions of the costs.
2. Explanatory notes should accompany any estimates as it relates to all key terms and any special features of Pakistan's cost assessment. For example, in the case of Pakistan, the influx and influence of refugees²³ and Internally Displaced Persons (IDPs) cannot be ignored in estimating the cost; hence, these should be identified as a specific item and as a special feature of Pakistan as it relates to cost estimation.

3. The budgetary allocations in Pakistan's case are not very well categorized and in the places where it is so characterized, the expenditure on terrorism and related costs is not indicated properly. For example, under the Punjab Police Rules 1934²⁴, the protection guard for Judges of the High Court is authorized as one head constable and three constables during the working tour. While the Rules provide for authorization of a fixed number of guards, the judicial officers are invariably provided many more guards for protection²⁵. Likewise, jail breaks are on the rise, and inmates and those awaiting trial for terrorism have escaped from the process of law²⁶. The added expenditure on the security arrangements of prisoners, jails, prosecutors, witnesses, court complexes, and judges usually do not figure into the budgetary allocations; therefore, the possibility of having a correct estimate of costs does exist, but extra efforts would be needed to collect expenditure details from the field units in addition to the reference to budget documents. Another point worth mentioning is that in the case of the police, the primary function of the investigation of criminal cases has been virtually upstaged by security considerations, and accordingly much of the police resources are now geared towards security-related functions, rather than criminal investigation.
4. It may be noted that the latest National Finance Commission Award²⁷ clearly provides that 'one percent of the net proceeds of divisible taxes shall be assigned to the Government of Khyber Pakhtunkhwa to meet the expenses of the 'war on terror.' Therefore, this one percent of divisible taxes must also be included in the final cost estimation.
5. The security cost of doing business in Pakistan, which is estimated to be 'between 0.5-2 percent of the total cost' of a project may also be included in the overall cost equation of the expenditure on the war on terrorism.²⁸
6. Under the head of economic costs, besides considering both micro and macro aspects as has been proposed by Stiglitz (2010), it should be required to examine comprehensively all the other types of costs²⁹.
7. The opportunity cost of the resources utilized on fighting terrorism must also be included in the final count to make it more reliable.

Concluding Remarks

It is axiomatic to state that what cannot be measured, cannot be managed. No effort should be lost to overemphasize this point as it relates to the fight against terrorism. The problem of not attributing value to all the related costs will persist, but following a clearly defined methodology for estimating the costs of the 'war' on terrorism within Pakistan will provide critical policy makers with an invaluable tool to maximize the viability of their decisions and to carve out future foreign and national security policies.

End Notes

- ¹The Resolution passed by the All Parties Conference (APC) held on 9th September, 2013 has recorded that the participants were 'briefed' by Prime Minister, Minister of Interior, Chief of Army Staff and Director General Inter-Services Intelligence. The text of the Resolution was reproduced in the daily *the News International* <http://www.thenews.com.pk/Todays-News-2-201085-Text-of-the-APC-resolution> [accessed on 26th September, 2013].
- ²According to Para 5 (b) of the Resolution of APC 2013, 'thousands' of state personnel, innocent men, women and children lost their lives.
- ³Economic Survey of Pakistan 2010-11 in a Special Section on the Cost of War on Terror for Pakistan Economy. Available on: http://www.finance.gov.pk/survey/chapter_11/Special%20Section_1.pdf [Accessed on 16 July 2013].
- ⁴Economic Survey of Pakistan 2010-11, Table I, pp 220.
- ⁵Para 5(b) of the Resolution of APC 2013.
- ⁶The general propensity in authors on the subject of costs on war is to only talk about the 'cost' side; it is only very rare that anybody talks about 'benefits' of the war. The discussion may sound artificial, but for providing complete picture on the subject, both sides of the equation i.e., cost and benefit should be explored. The point has been elaborated and well explained by Joseph E. Stiglitz and Linda J. Bilmes in their article titled 'Estimating the costs of war: methodological issues, with application to Iraq and Afghanistan.
- ⁷The new government of Pakistan was elected into office on 5th June, 2013. The new Finance Minister Ishaq Dar reportedly excluded the publication of costs on war on terror in Economic Survey of Pakistan 2012-13 just before its publication. The apparent reason as per news is that the figure of 'opportunity cost' or losses was reported to be US \$ 125 Billion, while the earlier reported figure was in the range of US \$ 68 Billion and US \$ 85 Billion. The incumbent Minister reportedly excluded the figure as he wanted to bring in more credible information on the issue. The information was published on 12th June, 2013 in the daily, *the News International* by Mehtab Haider. <http://www.thenews.com.pk/Todays-News-13-23427-Cost-of-war-on-terror-dropped-from-Economic-Survey> [accessed 26 September, 2013].
- ⁸It appears that the reference is to Khyber Pakhtunkhwa (KPK) and Balochistan provinces.
- ⁹Stiglitz, E. Joseph and Bilmes, Linda J, "Estimating the Cost of War: Methodological Issues, with Applications to Iraq and Afghanistan". http://www2.gsb.columbia.edu/faculty/jstiglitz/download/papers/2012_Estimating_Costs_War.pdf [accessed on 26 September, 2013].

- ¹⁰Stiglitz, E. Joseph and Bilmes, Linda J, Estimating the Cost of War: Methodological Issues, with Applications to Iraq and Afghanistan, pp 3.
- ¹¹Benmelech, Efraim, Klor, Esteban F, Berrebi, Claude, the Economic Cost of Harboring Terrorism, NBER Working Paper No. 15465.
<http://www.nber.org/papers/w15465.pdf> [accessed on 26 September, 2013].
- ¹²Crawford, Neta, *US Costs of Wars Through 2013: \$ 3.1 Trillion and Counting*, <http://costsofwar.org/sites/default/files/UScostsofwarsum.pdf> [accessed on 26th September, 2013].
- ¹³APC Resolution, Para 5(c) states: "... We declare that we shall ourselves determine the means and mode of fighting this war in our national interest and shall not be guided by the United States of America or any other country in this regard".
- ¹⁴François Bugnion, *Jus Ad Bellum, Jus In Bello And Non-International Armed Conflicts*, published in the Yearbook of International Humanitarian Law, T. M. C. Asser Press, vol. VI, 2003, pp. 167-198.
http://www.icrc.org/eng/assets/files/other/jus_ad_bellum,_jus_in_bello_and_non-international_armed_conflictsang.pdf [accessed on 26th September, 2013].
- ¹⁵For a detailed analysis of the legality of the term in international humanitarian law please see: Coping with 9/11: Alternatives to the War Paradigm by Mathew Evangelista. <http://costsofwar.org/sites/default/files/Evangelista911.pdf> [accessed on 27th September, 2013].
- ¹⁶Bingham, Tom, *the Rule of Law*, on pp 133 onwards, explains in detail the differences of the UK and the US approaches towards terrorism. He has cited Professor David Cole of Georgetown University who in his article '*The Brits Do It Better*' has quoted Sir Ken Macdonald Director of Public Prosecutions in the UK, who has specifically stated that the UK 'fight' against terrorism is not a 'war'.
<http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1009&context=facpub> [accessed 27th September 2013].
- ¹⁷Part X comprising Articles 232 to 237 of the Constitution of Pakistan 1973 provide for separate set of rules at the time of 'war'.
- ¹⁸Tellis, Ashelly. J, *Pakistan and War on Terror, Conflicted Goals and Compromised Performance*, Carnegie Endowment for International Peace.
- ¹⁹Para of Resolution passed in 2013 All Parties Conference 2013.
- ²⁰Reproduced here from Economic Survey of Pakistan 2010-11.

- ²¹ Stiglitz has used the terminology of 'joint costs' and has not that these are inherently problematic.
- ²² See footnote 8 above.
- ²³ According to United Nations High Commission for Refugees, the Statistical Snapshot for Pakistan shows that the total number of refugees is 1.6 million whereas the number of Internally Displaced Persons (IDPs) is 0.75 million. <http://www.unhcr.org/pages/49e487016.html> [accessed on 6 October, 2013].
- ²⁴ Rule 18.20 of the Punjab Police Rules 1934.
- ²⁵ Though there have been many instances in which judicial officers and premises have been attacked by the terrorists, the latest and one of the most high profile has been the attack on Justice Maqbool Baqar (now Chief Justice) of Sindh High Court. Reported in the daily *the News International* on 27th June, 2013. <http://www.thenews.com.pk/article-106926-Karachi:-Justice-Maqbool-Baqar-attack-case-registered> [accessed on 30th September, 2013].
- ²⁶ Zahir Shah Sherazi, the daily *Dawn* reported escape of 175 hardened terrorists from Dera Ismail Khan jail. <http://dawn.com/news/1032777/pakistani-taliban-free-over-175-inmates-in-di-khan-jailbreak>. [accessed on 30th September, 2013].
- ²⁷ Section 3(2) of the Distribution of Revenue and Grant-in-Aid Order, 2010.
- ²⁸ Security cost of doing business by Khaleeq Kiani, the daily *Dawn* published in Dawn on 27 January, 2014. <http://www.dawn.com/news/1082998/security-cost-of-doing-business> [accessed on 27th January, 2014].
- ²⁹ Dr. Azhar Hassan Nadeem, PSP Ex-IGP, Punjab has centred his taxonomy of costs around economic, social and cultural costs in his presentations at various academic and media fora.

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