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ECONOMY | CAPITAL ACCOUNT WSJ PRO

## Terror's Toll Is More Social Than Economic

Economies tend to heal quickly after attacks, but damage to public attitudes can linger and fester



While the economic toll of terror attacks tends to be limited and fleeting, the damage to the social fabric can linger and pose longer-term problems. Here, a rally for Islam in Manhattan last month. PHOTO: ALBIN-LOHR JONES/ZUMA PRESS



By **GREG IP**

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Islamic State's bloody attacks in Paris in November left restaurants and streets depopulated, hotels empty and rock concerts canceled. The French economy, too, has taken a hit.

This is how terrorism works. Terrorists can't defeat Western countries on the battlefield, so they try to make them hurt themselves: Fear of more attacks may stifle economic activity, or a repressive security response may damage the social fabric.

On the first score, the terrorists have generally failed. Western targets have suffered no lasting economic harm.

On the second, there is troubling evidence the terrorists are succeeding. Islamic terrorism has fueled broader anti-Muslim sentiment that slows the pace of the assimilation of Muslim immigrants and potentially makes them more receptive to radicalization.

Al Qaeda's 9/11 attacks on the World Trade Center towers were expressly aimed at crippling the heart of American capitalism. And indeed, they did hasten the broader economy's slide into recession. Expensive and time-consuming new security checks were thrown up around New York and around basic functions like aviation.

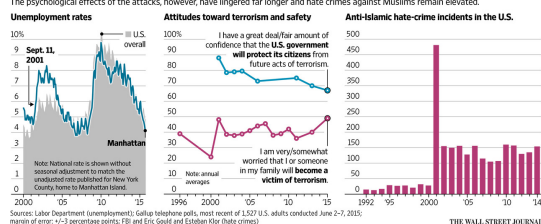
Yet New York showed surprisingly little lasting effect. Manhattan's population barely dipped after the attacks. By 2008, it was up 3% from its 2000 level. Jobs bounced back to pre-attack levels by 2008. Lower Manhattan's jobs are still short of pre-attack levels while its population is higher, though both reflect trends that predated 9/11. The effects of the al Qaeda-inspired attacks on transport systems in Madrid in 2004 and London in 2005 were even more fleeting.

This turns out to be typical. In a 2001 paper, Edward Glaeser and Jesse Shapiro of Harvard University noted that inner London's population grew steadily in the 1980s and

1990s despite repeated bombings by the Irish Republican Army. They also found that Jerusalem, despite its greater vulnerability to terrorist attack, had grown faster than Tel Aviv through most of Israel's history. The advantages cities have nowadays in attracting and rewarding talent more than offset their disadvantages as terrorism targets, Mr. Glaeser says.

#### Where Terror's Impact Lingers

Unemployment in Manhattan leapt after Sept. 11, 2001, but quickly returned to levels matching the comparable national rate. The psychological effects of the attacks, however, have lingered far longer and hate crimes against Muslims remain elevated.



But terrorism undermines more than just the target's economy.

Bruce Hoffman, a terrorism expert at Georgetown University, says terrorist movements have long sought to goad their adversary into

repressive counter-measures that alienate the broader population: the British military response to IRA attacks generated hostility from the residents of Northern Ireland, just as British imposition of martial law on Tel Aviv in 1947 because of Jewish guerrilla attacks alienated the broader Jewish population in pre-independence Palestine.

Americans' worries about terrorism have remained elevated since 9/11, and their trust in the government's ability to prevent attacks has fallen. Negative views of Muslims have also risen. In October 2001, 39% of Americans had unfavorable views of Islam, according to ABC News-Washington Post poll. By 2010, that had risen to 49%.

Hate-crime incidents against Muslims averaged 23 per year from 1992 to 2000, shot up to 481 in 2001, and have averaged 139 since (though they are well below hate crimes against blacks, Jews and gays). Just as banks and securities are widely treated as tainted during a financial panic, Muslims are widely suspected of terrorist sympathies during a terrorism scare.

This appears to be slowing the assimilation of Muslim immigrants. A study by Eric Gould and Esteban Klor of the Hebrew University of Jerusalem, found that after 9/11, immigrants from predominantly Muslim countries living in states that experienced more anti-Islamic hate crimes became more likely to marry people from other Muslim countries, less likely to marry non-Muslims, to have more children, and speak less English. Women were less likely to work.

Separate research has found that after the 2005 London bombings, the city's predominantly Asian neighborhoods experienced larger declines in home prices and sales and an increase in racial segregation.

Mr. Gould found no evidence that al Qaeda sought to isolate American and European Muslims with its attacks. Islamic State has been far more explicit, seeking to destroy what it calls the "gray zone" where Muslims live peacefully in Western democracies.

"Their message is that you can't live in Western societies, you'll never be accepted as equals," says Mr. Hoffman. When some politicians entertain closing mosques or denying entry to all Muslim refugees, they may reinforce that message.

Clearly, radicalization occurs even in the absence of anti-Islamic sentiment. Conversely, less assimilation does not mean Muslims will be more susceptible to radicalization. But the risk exists, especially in Europe, where Muslims are less assimilated than in the U.S., and relatively worse off economically.

This presents governments with two risks: respond weakly to terrorists and invite more attacks while undermining public trust and sense of safety; respond indiscriminately, and reinforce the terrorists' message. Finding a path between those two extremes is the challenge facing Western governments.

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