

Immigration, terrorism, and the economy

Abstract

In this paper, we look at the interaction of terrorism with the quality of life of immigrants (measured by the foreign-born unemployment rate and globalization level) for OECD countries, and its impact on GDP per capita and exports-to-GDP ratio. We find strong evidence that GDP per capita is adversely affected by domestic terrorism. The magnitude of this effect is also substantial: at the sample mean, a one-standard-deviation increase in the number of domestic incidents is found to decrease GDP per capita between 5.7% and 7.8% of the sample average depending on the specification used. We also find strong evidence that domestic terrorism increases the exports-to-GDP ratio, but transnational terrorism tends to decrease this ratio. These results contrast with previous research which finds that transnational terrorism primarily affects these economic indicators. We also find strong evidence that when we factor in the interaction of the foreign-born unemployment rate with either type of terrorism, an increase in the foreign-born unemployment rate decreases GDP per capita. Also, an increase in the foreign-born unemployment rate is found to increase the export-to-GDP ratio when we interact the unemployment rate with domestic terrorism.

Keywords: Domestic Terrorism; Transnational Terrorism; Immigration; Globalization; OECD