

USAWC STRATEGY RESEARCH PROJECT

**TRANSNATIONAL TERRORISM'S AFFECT ON THE U.S. ECONOMY**

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This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

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# Report Documentation Page

Form Approved  
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE <b>03 MAY 2004</b>		2. REPORT TYPE		3. DATES COVERED -	
4. TITLE AND SUBTITLE <b>Transnational Terrorism's Affect on the U.S. Economy</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) <b>Michael Curci</b>				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>U.S. Army War College, Carlisle Barracks, Carlisle, PA, 17013-5050</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT <b>See attached file.</b>					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES <b>33</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			



## ABSTRACT

AUTHOR: Michael A. Curci  
TITLE: Transnational Terrorism's Affect on U.S. Economy  
FORMAT: Strategy Research Project  
DATE: 19 March 2004 PAGES:31 CLASSIFICATION: Unclassified

The strategic economic impact experienced following the terrorist attacks on September 11, 2001 is startling. It was only after the immediate crises that the United States and nations around the world realized the implications -- and concluded the attacks threatened the very existence of democracy and capitalism. Nations from around the world denounced terrorist acts and vowed to take part in the war against terrorism. But regardless of the numbers of nations who have denounced terrorism, organizations like al Qaeda remain willing to sacrifice their existence to defeat democracy and capitalism. Today, two years after the terrorist attacks, the blow to the U.S. economic stability is still visible; however, the research in this paper indicates the U.S. economy is very resilient and that it would take a great deal of domestic and external pressure to generate a long-term and lasting economic affect.

This paper analyzes the impact terrorism has had on the U.S. economy and seeks to determine how well the U.S. economy will stand to future terrorist attacks on U.S. soil that match magnitude of economic affect caused by the attacks of September 11, 2001.

*To the veterans.*



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## TRANSNATIONAL TERRORISM AFFECT ON U.S. ECONOMY

On September 11, 2001, the United States lived through what is recognized as the worst terrorist attack in American history. Hijacked commercial airplanes slammed into the World Trade Center, the Pentagon, and a field in Pennsylvania, killing over 3000 people. The terrorists who piloted the aircrafts delivered calculated strikes against symbols of national power. The aim of al Qaeda's attacks was to show the world America's vulnerability and to weaken the American and Western capitalistic way of life.

The attack on America raised questions about the degree of vulnerability of the U.S. and the new world economy. U.S. economic prosperity is arguably the U.S. center of gravity. According to Dr. Daniel Yergin until September 11<sup>th</sup> the U.S. economy's prosperity, expansion, and link with economic globalization was seen as inviolable; since September 11<sup>th</sup> the U.S. has come to realize our economy is vulnerable in those three areas.<sup>1</sup> The influence of terror manifested itself in the economy in a matter of weeks following the events in NYC and Washington D.C.: air travel, cruise line sales and stocks, hotels, restaurants, recreation and entertainment events all experienced known monetary losses. Some businesses filed for bankruptcy, while others struggled to recover from the physical and physiological effects caused by the devastation of transnational terrorism. Based on the present global operating environment, the President of the U.S. and the National Security Council see the act and its result as having escalated from random attacks into "war". This paper explores the economic impact of the September 11<sup>th</sup> terrorist attack against the United States and investigates vulnerability of the U.S. economy to transnational terrorism. The paper, furthermore, takes a close look at the economic affect of terrorist attacks on a U.S. metropolitan area. The primary focus for the paper is New York City (NYC), the city that suffered directly from the attacks (in terms of loss of life, infrastructure, and gross city products) against its international financial district, World Trade Center, on September 11<sup>th</sup>.<sup>2</sup>

### **U.S. ECONOMIC OBJECTIVES AND THE TERRORIST THREAT**

Given that the National Security Strategy (NSS) of September 2002 identifies economic growth as one of eight U.S. national goals and that terrorists continue to target the United States with their destructive actions to cripple its economic activity, it is fitting to review today's operating environment and U.S. economic objectives. The U.S. goal as articulated in the NSS is "...to establish political and economic freedom by igniting a new era of global economic growth through free markets and free trade."<sup>3</sup> To achieve that end, the nation must preserve the

freedom and vibrancy of its market economy while restoring security and confidence to the American people and to international investors.

The al Qaeda terrorists, in a shift of their strategic aim are now targeting our economy as well as our politics. Before the declaration and establishment in 1998 of the World Islamic Front for Jihad invoked a Muslim holy war against the "Crusaders" and the Jews, attacks on America were largely directed toward American institutions and symbols of power rather than to the broader target of "the West".<sup>4</sup> Since the 1998 change in the focus of al Qaeda's terror, the world has witnessed an escalation of attacks against American symbols of power but, more importantly, it has also seen an increase in attacks against the West's capitalistic way of life.<sup>5</sup> The apex of the al Qaeda assaults, to date, has been the attack against the Pentagon and the World Trade Center carried out in September 2001.

Since those tragic events the U.S. government has responded against terrorism with all its instruments of national power. In partnership with the United Nations, the U.S. began leading military forces in a multifaceted Global War On Terror (GWOT). Initially the U.S. led strong coalition strikes against the Taliban in Afghanistan and the al Qaeda leadership. Then the U.S. led a coalition of specific willing participants against an Iraqi government that threatens the freedom and security of the American people and those in other Westernized nations around the world. The fighting in Afghanistan was a decisive move by President Bush to strike against the root of the problem, the location of the al Qaeda leadership and their training camps. The fighting in Iraq is a statement of the U.S.'s resolve to punish any regime that harbors or supports terrorism or lives by violence and deception with an aim to threaten the civilized world.<sup>6</sup> It is also a statement that demonstrates U.S. resolve to protect the free market and free trade and to restore consumer and investor confidence. To date there appears to be no public scorecard by which to measure these U.S. successes or failures.

### **ACTS OF TERRORISM**

A look at recent terrorist targets shows that U.S. symbols of national power are no longer terrorists' exclusive targets; terrorists' without regard of global condemnation are targeting global capitalist activities. Since the start of the American led GWOT, many have died at the hands of al Qaeda. Al Qaeda operatives have made their way across the world to deliver deadly strikes. Where once the strikes were thought to be against the U.S. only such strike are now understood to be assaults against *all* Western societies.<sup>7</sup> Terrorist attacks attributed to al Qaeda after the start of the GWOT include a truck bombing in Tunisia that killed a group of European tourists, a car bombing of an American hotel in Pakistan that killed eleven French

defense contractors residing there, a French oil tanker attack in Yemen, and a club bombing in Indonesia that killed 173 Australians and Europeans and 7 Americans.<sup>8</sup> Such tragic and cowardly assaults, fueled by terrorists' ideological religious beliefs, are strikes against humanity. But despite the modern world's denouncement of terrorism, Islamist radical terrorist organizations continue their quest to destroy the Western way of life.<sup>9</sup> This new pattern of terrorism is alarming. Many terrorist targets are located in the hearts of cities in commercial and financial districts, terrorist destruction is causing both physical and psychological damage – and having a stunning economic impact that is felt around the world.<sup>10</sup>

But to wish away a probability of a terrorist strategy is to underestimate the capabilities of an enemy proven to have the patience and ability to strike and harm a superpower beyond previously conceivable calculations. National economic markets are interlinked in this era of globalization. Our national economic vulnerability is intrinsically linked to a global operating environment. The rapid expansion of globalization, against which Islamist radicals rail, also facilitates their freedom of movement and their ability to target and impact markets, free trade and national economies. Must the constant threat of terrorism sit like a looming shadow over America and the international community? The fact the U.S. can expect another spectacular attack from terrorists is not a chapter out of a Tom Clancy novel – unfortunately it is today's reality.

## **STATUS OF U.S. ECONOMY**

### **US ECONOMY PRE-SEPTEMBER 11, 2001**

The years 1994 through 2000 were solid growth years in real output for the United States. The growing Gross Domestic Product (GDP), low inflation rates and low unemployment rates made it seem as though the market would continuously prosper.

But in March of 2001 the market made a downturn: high-tech stocks fell sharply giving rise to initial signs of a U.S. economy recession. The government and the U.S. Federal Reserve began devising a strategy to help stabilize and stimulate the economy in response to the economic downturn. Following the government's assessment of the economic condition, the U.S. Federal Reserve and the Executive Office, instituted fiscal and monetary incentives. The Federal Reserve cut interest rates by one percentage point on March 13, 2001<sup>11</sup> and continued doing so periodically until short-term interest rates reached their lowest levels in 40 years.<sup>12</sup>

Meanwhile, unemployment rates grew. Steady manufacturing production declined – with production rates falling for 11 consecutive months.<sup>13</sup> With falling consumer investments and deteriorating corporate profits, more than \$5 trillion<sup>14</sup> in market capital vanished, causing a

natural hesitation among private business owners to invest in business futures or venture capitals and whole industries to suffer. Consider the airline industry: the lack-luster economy and a general decline in air travel, in addition to prolonged labor disputes, threatened the viability of the airline industry. As a consequence, the airline industry began protecting its assets by cutting back on overhead and refraining from capital and venture investments. A conventional way to reduce cost is to decrease overhead, and decreasing overhead means laying off employees. Hence, job layoffs became headline news.

By August 2001, the U.S. Bureau of Labor Statistics (BLS) reported that the country's unemployment rate had risen to 4.9 from 2000's average of 4.0 without showing signs of reprieve.<sup>15</sup> The market decline was further exacerbated by inflation, high interest rates, and hard-to-obtain credit lines, all factors helping erode consumer and investor confidence and enabling further economic decline.<sup>16</sup>

#### U.S. ECONOMY POST-SEPTEMBER 11, 2001

The depth of the economic impact from the attacks on September 11<sup>th</sup>, occurring as they did in a recessing economy, should have resulted in a long and arduous economic recovery. After September 11, 2001, the already volatile U.S. economy experienced increased difficulty. The airline industry, already facing economic difficulties before the attacks was among the first industries to feel the economic strain resulting from September 11<sup>th</sup> attacks. According to the *Washington Post*, the airline industry annual revenue was circa \$125 billion, with a reported workforce of roughly 1.2 million people.<sup>17</sup> Less than a week following the attacks the airline industry, facing possible bankruptcy, began laying off thousands of employees. The biggest layoff came from manufacturing giant Boeing, maker of the jumbo jets that slammed into the World Trade Center. Boeing, reacting to the attacks, laid off 30,000 employees. Then, as consumers and businesses continued to reduce their air travel and their number of aircraft orders, Boeing laid-off an additional 10,000 staff members.<sup>18</sup> As a result of the attacks and subsequent dramatic reduction in air travel, the aggregate total of laid off airline employees exceeded 100,000 by 2002 (see Table 1, Airline Industry Initial Job Cuts and Financial Remarks). In the improved economic state of late 2003, the financial status of the airline industry remains depressed; some U.S. airlines are presently experiencing a 40 percent lower passenger-booking rate when compared to last year.<sup>19</sup> Secretary of Transportation Norman Mineta has stated that attacks on the U.S. are costing the airline industry \$250 million to \$300 million per day, a monetary relief package is being worked by the administration to assist in the recovery and the continued stability of the airline industry.<sup>20</sup>

Airline	Job Cuts	Year	Finance 2001 - 2003
American	20,000	2001	American Airlines has lost nearly \$5.3 billion since 2001. The carrier must cut annual costs by \$4 billion - including \$1.8 billion in spending on its 99,000 employees - to remain afloat.
	7,000	Aug 2002	
	1,250	Dec 2002	
United	20,000	2001	United Airlines has filed for Chapter 11. The airline lost \$4 billion combined in 2001 and 2002, and faced debt payments of nearly \$1 billion.
	1,250	Oct 2002	
	9,000	Nov 2002	
Delta	13,000	2001	Delta airline lost \$466 million in the first quarter of 2003.
	8,000	Oct 2002	
Northwest	10,000	2001	Northwest airline lost \$396 million in the first quarter of 2003.
Continental	12,000	2001	Continental lost \$221 million in the first quarter of 2003.
U.S. Airways	11,000	2001	U.S. Airways, which emerged from Chapter 11 bankruptcy reorganization on March 31, 2003, lost \$282 million in the first quarter of 2003, compared to \$435 million a year earlier.

TABLE 1. AIRLINE INDUSTRY INITIAL JOB CUTS AND FINANCIAL REMARKS <sup>21</sup>

In addition to the depressed airline industry, entertainment, insurance, construction, real estate, travel, tourism, and other industries also were adversely affected by the September 11<sup>th</sup> attacks, causing great strain on the already declining economy.<sup>22</sup> U.S. cruise industry bookings, following the attacks of September 11, declined by 40 percent and cancellations were up 25 percent from 2000. Overall, that industry's stocks fell by 40 to 50 percent. Chief executive

officer Mr. Micky Arison, of the Miami-based Carnival Corporation, reported its bookings had dropped by 60 percent from the norm the company would carry at that time of year.<sup>23</sup>

The harm caused by the declining economy of March 2001 and compounded by the attacks of September 11<sup>th</sup> did leave its mark on the U.S. economy and private industry. Yet despite the tragedy of September 11 and the firm economic signs of a recession like the 16 point drop in consumer confidence in November 2001 (the largest decrease in a month's performance period since October 1990), the lack of consumer spending, the sharp fall of air travel, a drop in the Dow Jones Industrial Average that matched the largest weekly loss since the Great Depression,<sup>24</sup> the U.S. economic recovery was still realized quickly.

Earlier government actions in response to an already declining economy, followed by quick intervention and intergovernmental cooperation, fostered recovery. The Federal Reserve had dropped interest rates eight times preceding the attacks to stimulate economic recovery. Following the attacks, it assured the public, American and international, that the Federal Bank would "...play its regular role in the payment system, and the Fed stood ready to play the role of providing liquidity in times of crisis."<sup>25</sup> Additionally President Bush signed into law a tax cut while Congress passed a bill to stimulate growth for new business.<sup>26</sup>

#### **COMPLEMENTARY ECONOMIC CONDITION: TERRORIST ATTACKS AFFECT ON U.S. CITIES.**

Just as we have come to understand what gives the U.S. economy resilience as a whole, so too should we understand how strong our cities are. The economic impacts of the September 11<sup>th</sup> attacks were not limited to NYC alone. Metropolitan areas across the nation have experienced economic hardships manifested in terms of the loss of business and loss of jobs. For example, effects in Los Angeles, California, have been significant, as the state depends heavily on international tourism, trade, and entertainment -- all of which have fallen sharply.<sup>27</sup> Chicago, Illinois, lost 68,000 jobs, and Las Vegas will have five percent fewer jobs as a result of the terrorist attacks on September 11, 2001.<sup>28</sup> Other cities in the U.S. have also been affected, each in varying degrees.

However, the impact of the September 11<sup>th</sup> terror attacks on New York City (NYC) stands as a model for the extent of damage, through loss of wealth and loss of gross city product, that a well-planned terrorist attack can inflict upon a metropolitan area. New York City immediate economic losses derived from the September 11<sup>th</sup> attacks on the World Trade Center reached incomprehensible numbers, particularly considering that the tragic event took place in just two hours and fifty-four minutes.<sup>29</sup> According to the reports given by the Comptroller of New York City, William C. Thompson, Jr., the calculation of loss includes the destruction of 13 million

square feet of premium Manhattan office space; damage to the city's infrastructure; cost of clean up, restoration; the loss of 146,000 jobs; and the loss of \$8.5 billion in wages.<sup>30</sup> In terms of wealth, which includes damaged or destroyed property and loss of personal income, and in terms of gross city product, which includes loss of goods and services produced and sold, the final estimates are hovering between \$83 billion and \$95 billion (see Table 2 for the sum of current losses and projected losses in 2004).

<b>Loss from the Nature and Timing of Impact</b>	<b>Subtotals</b>	<b>Total</b>
Total Economic Impact		\$82.8 - \$94.8
Lost Wealth/Capital		\$30.5
Physical Loss	\$21.8	
Human	\$8.7	
<b>Lost Gross City Product: 2001-2004</b>		\$52.3 - \$64.3
2001 (three months)	\$11.5	
2002	\$15.8	
2003-2004	\$25-37	

TABLE 2. THE ECONOMIC IMPACT ON NEW YORK CITY OF THE LOSS OF THE WORLD TRADE CENTER FROM TERRORIST ATTACKS, \$ IN BILLIONS

The key impetus for the city's economic downturn was loss of wealth. At least \$30.5 billion of the total cost to New York City comes from loss of wealth. Given that the financial district in New York City is one of the largest areas of concentrated prime office space in the continental U.S., estimated loss from damaged or destroyed property is high. Of the few locations in the U.S. considered to have prime office space, Midtown Manhattan ranks first, followed by Chicago's central business district, then Downtown Manhattan, followed by Washington D.C. and finally Manhattan's Midtown South.<sup>31</sup> The loss of 13 million square feet of office space in the World Trade Center was the equivalent to losing the entire inventory of office space in Atlanta, Georgia, or all of the office space in Miami, Florida. It will cost the city, aided by the federal government, \$21.8 billion to replace the buildings, infrastructure and tenant assets destroyed in the attacks, of which \$6.7 billion will go towards replacing the 13 million square feet of office space. The comptroller's report further indicates it will require \$4.5 billion to repair the 17 million square feet of damaged office space in buildings near the trade center

complex and \$4.3 billion to repair and restore transportation facilities and the utility lines for telecommunications and infrastructure necessary to restore service to lower Manhattan. The cost associated with replacing tenant assets, such as technical equipment and office furnishings and the cost associated with the clean up and victim assistance paid by private companies is likely to reach \$6.3 billion dollars.<sup>32</sup> At first glance this figure may not be alarming, but the second and third order affects are troubling.

Consider how the loss of office space translates into loss of personal income through the loss of jobs. The loss of jobs translates to fewer people commuting into the city and spending money on parking, transportation, restaurants. And the loss is greater if the company affected by the attacks decides to reestablish its business in a neighboring state, for instance New Jersey or Connecticut. Of major concern is how loss of wealth through the loss of human capital on September 11<sup>th</sup> has reduced New York City's productive capacity, measured by the average income and expected working life of those who perished. The loss of the expected earnings of those who died is estimated at \$8.7 billion dollars. To arrive at this figure, the comptroller's report shows that of 2,819 people listed as killed in the World Trade Center, 2,257 were workers and 415 were rescue workers (refer to table 3 for the average age and estimated remaining work life of World Trade Center Victims). In 2000 the average salary of workers living in Manhattan was \$70,000; the average salary for those working in the financial, insurance, and real estate industry in Manhattan was \$156,000. More than half of those who perished on September 11<sup>th</sup> worked in higher income industries. Forty percent of those who perished in the securities industry. This works out to an estimated average of \$130,000, a conservative figure.<sup>33</sup> "If the average income of lost WTC workers was \$130,000 per year and they would retire at 65, then the loss of 2,672 WTC workers equates to a loss of \$8.7 billion in productive capacity."<sup>34</sup>

<b>Age Group</b>	<b>30 or Under</b>	<b>31-40</b>	<b>41-50</b>	<b>51-60</b>	<b>Over 60</b>	<b>Total</b>
Percentage (out of 2,819)	19.5%	36.8%	27.7%	13.0%	3.0%	100%
Average Age	26.63	35.61	44.83	54.73	65.94	39.85
Years to Retirement	38.75	29.39	20.17	10.27	0.00	25.15

TABLE 3. AVERAGE AGE AND REMAINING WORKING LIFE OF WTC VICTIMS

The second significant impetus of the economic drain resulting from the September 11<sup>th</sup> attacks is the loss of gross city product – that is, the loss of sales of goods and loss of services to the city. The impact from this on New York City's economy is severe. In addition to the losses computed for the loss of wealth, the city will lose as much as \$52.3 billion and \$64.3 billion dollars in lost economic activity, or gross city product. New York's gross city product averages \$1.2 billion per day, three-quarters of which is generated in Manhattan.<sup>35</sup> In the early weeks after September 11<sup>th</sup> business came to a near stand still.

In the immediate aftermath, the New York Stock Exchange was closed, stores were closed, the airports were closed, the transportation system was disrupted and the theaters were mostly dark. And that was only the tip of the iceberg. Some downtown businesses were able to continue operating from other locations to varying degrees. Basically, however, for several weeks, our city lost economic contributions of the 50,000 people who worked in the World Trade Center...50,000 more worked in nearby buildings...and the 100,000-plus additional people who ordinarily passed through the downtown PATH hub and subway stations, and shopping areas came to an abrupt halt.<sup>36</sup>

Due to the slow down and closure of several businesses in the financial district and the closing of access to the downtown area below 14<sup>th</sup> Street (to allow freedom of movement for the rescue operations), the lack of the city's usual business patterns and scarcity of tourist traffic contributed to the \$11.5 billion loss in gross city product in the 16 weeks following the attacks. The city expected to lose \$15.8 billion in 2002 and between \$25 to \$37 billion over 2003 and 2004.<sup>37</sup>

Exacerbating the economic drain to the city of New York is the loss of jobs resulting from the destruction in lower Manhattan. According to the 2002 NYC comptroller's report, by September 2002, the city had suffered a decrease of 146,100 jobs. The 2002 report includes the loss of 83,000 jobs and 63,000 potential jobs expected to come with the end to the city's recession when the national economy improved. The city's comptroller-released analysis of February 2003 job numbers from New York State Department of Labor and the U.S. Bureau of Labor Statistics showed a one-month loss of 11,600 jobs and the highest unemployment rate (8.8 percent) since November 1997.<sup>38</sup> In a separate report the NYC comptroller indicates that from September 2001 to July 2003, the city loss of 162,000 jobs, a 4.4 percent loss from its September 2001 level. While not all job losses are directly related to the attacks, the social and economic impact of September 11 remains a key factor in the city job market. The job losses compares with the nation's loss of 1.68 million jobs, a 3.1 percent loss from September 2001. As a result, the gap of losses between the city and nation was about 3.1 percentage points, the

widest gap since September 2001.<sup>39</sup> New York City's job recovery is still under stress. As indicated by the NYC Comptroller in a press release on September, 2003. "Although the National Bureau of Economic Research *officially* declared that the U.S. recession ended in November 2001, the city remains in the grip of a stubborn recession, as illustrated by the tenth consecutive quarter of negative real growth".<sup>40</sup>

A study conducted by the U.S. Federal Reserve Bank of New York concludes that metropolitan areas are resilient to terrorism, despite the amount of physical damage and economic loss bestowed by the attacks. But there is a limit, a point at which cities can no longer endure the cost of doing business under recurring attacks. The culminating resiliency point is reached when "...firms must pay more than the critical level to counter the effects of an ongoing threat, they can no longer offer workers wage premium for living in city and workers began moving away, setting in motion a vicious circle that could end in the loss of city's economic rationale."<sup>41</sup> The authors of the study, however, report that certain conditions must exist to reach that culminating point. Firms must be unable to obtain any private insurance. The national government must offer no financial aid in the event of an attack and an incident of the same magnitude as that of September 11, 2001, must be expected to occur every year.<sup>42</sup> The report concludes that such a scenario is unlikely to occur, and therefore cities in the U.S. are likely to thrive despite the ongoing threat of terrorism.

#### **U.S. ACTION TO STRENGTHEN THE ECONOMY**

The U.S. government, federal agencies, and business executives are prepared to take and have taken aggressive steps to protect the economy. The government actions pre-September 11, 2001, combined with the quick response post-September 11, 2001, helped halt the recession and demonstrated strong fiscal and monetary policies capable of withstanding unpredicted instabilities. As a result, the *immediate* terrorist impact to the U.S. economy was short lived. One month after the attacks the Chairman of the U.S. Federal Reserve was able to show confidence that our institutionalized banking, exchange, and monetary and fiscal policies and overall economic system remained basically unharmed. He stated publicly that the U.S. outlook for long-term economic performance remained sound.<sup>43</sup>

Responding to the emergency of the attacks on September 11, 2001, despite the physical, emotional, and economic losses resulting from the attacks, the executive branch of the U.S. government, federal institutions, and private citizens moved quickly to begin restoring that which had been halted or lost. Republicans on the Senate Budget Committee had already developed informal estimates. Congress enacted a \$40 billion emergency package within days

following the attacks, and shortly was preparing to provide an additional \$20 billion in aid to the ailing airline industry and \$20 billion to the Pentagon. Key financial agencies within the government, such as the Treasury Department, the Security and Exchange Commission, and, again, the Federal Reserve, acted swiftly to come to the aid of the endangered economy. The Federal Reserve injected several hundred million dollars into the economy, and cut interest rates an additional three times in the wake of the attacks.<sup>44</sup> Other government entities, displaying unusual cooperation, coordinated their recovery and aid plans for businesses impacted by the terrorist attacks of September 11.<sup>45</sup>

U.S. industry giants participated in the recovery as well; they dropped interest rates for loans to an uncommon 0.0 percent. Auto industry incentives, for example, induced a sharp rebound in motor-vehicle sales that has conveyed undiminished into the succeeding months.<sup>46</sup> Subsequently, others in private industry, such as Sears, General Electric, Circuit City, Thomasville Furniture Company, adopted similar incentives to attract consumer spending.<sup>47</sup> Following the attacks of September 11<sup>th</sup>, critical emergency operations communications link designed and financed by C. Michael Armstrong, CEO for AT&T that will enable the U.S. to avoid communications failures in future emergencies. The link is a secure phone system the nation's top executives and government officials can use to exchange critical information in the event of national emergency.

In the aftermath of the September 11<sup>th</sup> attacks, Congress and the administration functioned unencumbered by the normal obstacles to bi-partisan politics; the two parties reacted in unison to provide economic stimulus plans to halt the economy from further recession.<sup>48</sup> Global support was immediate. The World Trade Organization and intergovernmental cooperation was said to be at its finest, as government policymakers in the United States, Western Europe, Canada, and Japan coordinated their activities. Like the United States, all parties reduced their interest rates.<sup>49</sup>

The steps the U.S. government chose to take to constrain the economic problem -- especially working with and through the international community -- did in fact contribute to stabilizing the economy. The Honorable Paul Martin, Minister of Finances for Canada, made a similar observation when speaking to finance ministers and central bankers two months after the attacks of September 11, 2001. In his speech he first underscored that the current strong fiscal and economic policies were able to support the needs of most industrial nations and were better poised to withstand economic turbulence than the fiscal policies of past decades. He pointed out that the central banks had moved rapidly to maintain liquidity in markets and had brought interests rates down to stimulate consumer spending. Finally, he accentuated the

readiness of the International Monetary Fund, the World Bank and other international institutions to provide the necessary assistance to the private market.<sup>50</sup> He was likely alluding to the European Central Bank and the Bank of Japan having injected more than a \$100 billion into global banking systems linked to the U.S. economy and the global policy makers who stood ready to add more if needed.<sup>51</sup>

U.S. government response to economic turbulence, aided by a cooperative U.S. Congress, patriotic business executives, and a cooperative international system are what enabled the U.S. economic system to be strong and resilient to challenge. Credit belongs to the institutions and the nations who are supportive of free trade and a global economy. Credit belongs to the American people who sustain the labor and enterprise and represent 70 percent of the economy. Credit also belongs to U.S. economic institutions that demonstrated the willingness and flexibility to respond quickly to the economic uncertainties.

Within two months of the attack, the immediate danger of a U.S. economic recession had passed, and within two years of the attack the second quarter 2003 growth increase is attributed to a significant rise of consumer spending and an improvement in the trade balance; fixed investment was also stronger in the second quarter. Production and income growth surged July through September 2003, a period in which inflation remained moderate, according to estimates released by the U.S. Bureau of Economic Analysis.<sup>52</sup> The gross domestic product (GDP), the most comprehensive measure of U.S. economic activity, had increased 7.2 percent in the third quarter, the highest rate of growth since 1984 and more than double the 3.3 percent rate in the second quarter earlier in the year.<sup>53</sup>

Consumer spending, which accounts for 70 percent of our economy,<sup>54</sup> has significantly increased its expenditure on big-ticket items and on day-to-day consumer goods, denoting a sharp increase in disposable income. According to Department of Commerce Secretary Don Evans, today's strong performance shows that the American economy is headed in the right direction.<sup>55</sup> The improvement in the trade balance reflects both an increase in foreign spending on U.S. made products and a leveling of U.S. spending on imports. Residential investments have posted their biggest increase in 7 years; construction of both single family and multifamily housing increased at double-digit rates. The U.S. enjoys a homeownership rate of 68 percent, closest to the highest ever.<sup>56</sup>

Since the attacks of September 11<sup>th</sup> the government and business executives have been working to safeguard the U.S. economic and proprietary interests. The government, taking the lead on protecting its citizens and national assets from terrorism, has acted to enhance national security. Albeit controversial, the Uniting and Strengthening America by Providing Tools

Required to Intercept and Obstruct Terrorism (USAPATRIOT) Act of 2001, designed to enhance domestic security against terrorism, is considered an active statute that restricts freedoms terrorists had pre-September 11, 2001.

Other evidence of government protection are visible civil and military patrols at airports around the nation, patrols at seaports, border crossings, patrolling federal buildings, monuments, bridges. These actions are part of the awesome responsibility of national protection now carried out by the Department of the Home Land Security . The new federal agency's mission is: "...develop and coordinate the implementation of a comprehensive national strategy to secure the United States from terrorist threats or attacks. The Office will coordinate the executive branch's efforts to detect, prepare for, prevent, protect against, respond to, and recover from terrorist attacks within the United States."<sup>57</sup> As part of that mission, the challenge is to protect 5,000 airports, 2 million miles of pipeline, 66,000 chemical plants, 104 commercial nuclear power plants, 80, 000 dams, bridges, tunnels, all located on U.S. soil.<sup>58</sup>

The Department of Defense (DoD) is also visible in combating terrorism to harden soft targets and to respond with a trained and ready force. Evidenced by the continued battles in Afghanistan and Iraq and increased call-up of military reserves to support various military operations. Also evident by the adjustments in training in the military services to meet the changing operational environment. The end of the Cold-War era drew the U.S. to reassess the nature of the threat, hence the U.S. DoD began what is publicly known as "*transformation*". As part of transformation the U.S. military services incorporated unique domestic missions. Increased training designed to safeguard national interest against emerging domestic threats is a part of today's forces. A chemical or biological incident response force,<sup>59</sup> for example, is a U.S. Navy and Marine elite unit tasked to meet emerging operational challenges on domestic soil.

In addition to military and homeland active defensive measures, the government directed a study to examine the weaknesses of U.S. financial markets involved in a major disaster. The Government Accounting Office (GAO) conducted such study following the attacks that severely disrupted U.S financial markets, which resulted in the longest closure of the stock market since the 1930's.<sup>60</sup> GAO recommended that the Chairman, Security Exchange Commission, work with industry on specific areas: develop goals and strategies to resume trading in securities; determine sound business continuity practices designed to address wide-scale destruction; identify organizations critical to market operations and build in necessary redundancy and

continuity practices to ensure its fast recovery and survivability; and ultimately test strategies to resume trading.<sup>61</sup>

Business executives recognize the need for increased security, sound business continuity plans, and the need for increased vigilance and protections against cyber warfare. They also recognize the need to work with the government to find ways to safeguard our borders from belligerent entries without hindering the passage of commerce. The negative impact of heightened security of the free flow of commerce must be ameliorated. At the onset of the attacks of September 11<sup>th</sup>, "tightened border restrictions is reported to have induced dramatic curtailments of production at some establishment with just-in-time supply chain practices, most notably in the automotive industry".<sup>62</sup> Detroit's Ambassador Bridge, reported to be the most heavily traveled border crossing in the U.S., experienced some 17 hour delays based on restrictions imposed after the attacks of September 11<sup>th</sup>.<sup>63</sup> Heavy restrictions have adverse and compounding economic effects. The government and the private sector are cooperating to ensure maximum efficiency affecting cross-border commerce is applied. General Motors is among the companies piloting a project to allow pre-cleared trucks to use special lanes to avoid unnecessary delays at the border.<sup>64</sup> Similar efficiencies are being applied to the entry points on the U.S. southern borders, particularly between Mexico and California. Other private industry members bring other tools to the table to prepare businesses for future terrorist disaster.

#### **CONCLUDING COMMENT**

Although all businesses did not survive nor have all survivors recovered from the economic turbulence following September 11, the state of economic stability and outlook is encouraging.

Consumer confidence and spending have been the pillars of economic support that have kept U.S. growth positive to this point, yet there is concern that the consumer confidence can weaken if additional attacks of equal or greater magnitude are perpetrated on U.S. soil.

U.S. economic institutions, fiscal policies, and systems are mature and thus appear to be resilient to adversity. Recent events have tested the U.S. economy, particularly the acts of terrorism, collectively events added a strain to our economic institutions such as federal and private banks, insurance companies, and the executive branch, yet not enough strain to cause irrevocable economic damage. During the presidential campaign of 2000, when the market was on a steady decline as were job opportunities and economic growth, the President worked with Congress to reduce income tax affecting more than 100 million individuals; the tax relief was the

largest bestowed in a generation.<sup>65</sup> At the same time, the Federal Reserve moved to reduce interest rates to stimulate growth. The combination of dropping interest rates and lower taxes is credited as major help in halting a recession.<sup>66</sup> A second example occurred when corporate leaders of Fortune 500 “institutions” were found guilty of fraud for illegal practices, including securities, wire and mail fraud.<sup>67</sup> These illegal activities cost thousands of people their jobs and their savings, and, more significantly, gave rise to a loss of worker confidence in the American system. This time, working aggressively with legislators, the President contained the problem by passing historic reforms, holding corporate executives accountable for criminal behavior and white collar crimes, and policing corporate integrity. His stance which defended the interests of the stakeholders, helped restore the confidence of investors and consumers. A third test occurred on September 11, 2001, when terrorist attacked the World Trade Center. Although the nation had been aware that attacks were possible, such action was deemed so remote that terrorist attacks were never seriously incorporated into conventional assessments of economic risk.<sup>68</sup> The attacks caused a tragic loss of life and greatly disrupted the U.S. economy. But the coordinated actions of the U.S. government and those of other countries integrally linked to the global economy, by taking immediate steps to stabilize the U.S. economy, maintained both U.S. and global stability.

Given that the U.S. economy withstood the direct attacks of September 11 · 2001, recession was short lived, the GDP is heading in the right direction; recovery is underway in NYC, private and federal agencies are cooperating on issues related to the GWOT, and that the nation is leaving little to chance in preventing future attacks, can future terrorist strikes undermine U.S. economic prosperity? Allies and friends are essential for winning the war against terrorism, which explains this administration’s desire to build a strong and broad coalition. The U.S. and other nations who believe in the economic prosperity of free markets must unite to protect our global economy and to rid the world of terrorism. Becoming a nation that acts against popular international opinion has the potential of isolating the U.S. and stalling U.S. economic growth. A fear of continued unilateral decision could compel Europeans leaders and leaders of nations around the world to part strategic ways with the United States. This consequence has the potential of delivering incalculable economic and political damage.

We need a multinational coalition to share the burden of combating transnational terrorism, from the caves of Afghanistan to the jungles of Indonesia, and a demonstration of international unwavering commitment to the GWOT, vice a *perceived* independent U.S. resolution. The central task for the United States is to use all instruments of power: political, economic, military and information, to judiciously advance national goals and to protect the

homeland. Our domestic affairs are inextricably linked to foreign affairs. The President must maintain the confidence of the international community to win this inevitable protracted war against terror.

WORD COUNT= 6,338

## ENDNOTES

<sup>1</sup> William Cran and Greg Barker, *Commanding Heights: The Battle for the World Economy*, 360 min., WGBH Boston Video, 2002, digital video disk.

<sup>2</sup> This paper defines threat as rogue organizations, or state sponsored organizations whose aim is to harm / destroy U.S. economic stability and way of life. Attack is the result of a successfully executed plan intended to damage U.S. economy and way of life. Strikes perpetrated by rouge organization like al Qaeda target innocent people, government and military establishments, or key physical structures.

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<sup>4</sup> Peter Bergen, "Al Qaeda 2.0" *Journalist*, available from <<http://www.peterbergen.com>>; Internet; accessed 20 October 2003.

<sup>5</sup> Kurt M Campbell and Michele Flournoy, *To Prevail: An American Strategy for the Campaign Against Terrorism* (Center for Strategic International Studies, 2001) p.43-48.

<sup>6</sup> George W. Bush, "Taking Action to Strengthen America's Economy," *White House press release*, 7 January 2003 available from <<http://www.whitehouse.gov/news/releases/2003/01/print/20030107-5.html>>; Internet; accessed 23 November 2003.

<sup>7</sup> Bergen.

<sup>8</sup> Bergen.

<sup>9</sup> Campbell and Flournoy, 43-44.

<sup>10</sup> Peter Bergen, "Al Qaeda's New Tactics," *The New York Times*, 15 November 2001.

<sup>11</sup> Martin Crutsinger, "Interest Rates at 40 Year Low After Fed's Latest Cut," *Times Argus*, November 2003 available from <<http://timesargus.nybor.com/Search/Categories/Articles/39053>>; Internet; accessed 29 November 2003.

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<sup>13</sup> Brain S. Wesbury, *The Economic Cost of Terrorism*, (Washington, D.C.: U.S. Department of State, 2002); available from <<http://usinfo.state.gov/topical/econ/mlc/02091004.htm>>; Internet; accessed 20 October 2003.

<sup>14</sup> Chuck Martin, "The Continuing Impact on Business of 9/11," *Darwin Magazine*, October 2002; available from <<http://www.darwinmag.com/read/100102/impact.html>>; Internet; accessed 15 September, 2003.

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<sup>17</sup> Frank Swoboda and Keith L Alexander, "U.S. Airways Cuts Jobs; Bush Pledges for Aid for Ailing Industry," *Washington Post*, 18 September 2001 Tuesday Final Addition sec. A, p.A01.

<sup>18</sup> Francine Knowles and Lewis Lazare, "Boeing's Party Hits Turbulence," *Chicago Sun Times*, 25 September 2001; available from <<http://www.suntimes.com/terror/stories/cst-fin-boeing25.html>>; Internet; accessed 1 November 2003.

<sup>19</sup> Brian C. Keeter, "Airline Financial Crisis Places Economic Benefit at Risk," *Community for Economic Strength Through Aviation (CESTA)*, 28 March 2003; available from <[http://www.cestacoalition.org/newsroom/release\\_3.28.03.PDF](http://www.cestacoalition.org/newsroom/release_3.28.03.PDF)>; Internet; accessed 23 November 2003.

<sup>20</sup> John Gallagher and Daniel Fricker, "Troubled Airlines," *Detroit Free Press*, 19 September 2001; available from <[http://www.freep.com/money/business/nwa19\\_20010919.htm](http://www.freep.com/money/business/nwa19_20010919.htm) >; Internet; accessed 20 October 2003.

<sup>21</sup> David Castelveter, "More U.S. Airways Layoffs," *CBS News* 26 October 2002; available from <<http://www.cbsnews.com/stories/2002/12/21/national/main533997.shtml>>; Internet; accessed 10 October 2003.

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<sup>25</sup> Robert T. Parry, "The U.S. Economy After September 11," *Federal Reserve Bank of San Francisco, CA*; available from <<http://frbsf.org/publications/economics/letter/2001/e2001-35.html>>; Internet; accessed 11 December 2003.

<sup>26</sup> Wesbury.

<sup>27</sup> George Kieffer, *Los Angeles Economic Impact Task Force, Submitted to Mayor James K. Hahn*, 30 October 2001; available from <<http://www.ci.la.ca.us/mayor/force.pdf>>; Internet; accessed 14 May 2004.

<sup>28</sup> "September 11 Attacks Expected to Cost U.S. 1.8 Million Jobs," *Ananova Ltd.*; available from <<http://www.ananova.com/news/story/sm-492271.html?menu=news.latestheadlines>>; Internet; accessed 04 November 2003.

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<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> William C. Thompson, Jr. Press Release April 2003; available from <[http://www.comptroller.nyc.gov/press/2003\\_releases/print/pr03-04-037.shtm#](http://www.comptroller.nyc.gov/press/2003_releases/print/pr03-04-037.shtm#)>; Internet accessed 10 November, 2003. See also updated figures from NYC Comptroller's Press Release # 212-669-3747.

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<sup>41</sup> James Harrington, and Philippe Martin, *Terrorist and the Resilience of Cities*, Federal Reserve Bank of New York, Economic Policy Review, Volume 8, Number 2, November 2002; available from <<http://www.newyorkfed.org>>; Internet; accessed 01 November 2003.

<sup>42</sup> Harrington, and Martin.

<sup>43</sup> Greenspan.

<sup>44</sup> Ibid.

<sup>45</sup> George W. Bush, "Bush Says U.S. Economy is Fundamentally Strong," U.S. Department of State, 22 September 2001; available from <<http://usinfo.state.gov/topical/pol/terror/01092201.htm>>; Internet; accessed 15 October 2003.

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<sup>48</sup> Bush, *Bush Says U.S. Economy is Fundamentally Strong*.

<sup>49</sup> Ibid.

<sup>50</sup> Paul Martin, *Globalization, Terrorism and the World Economy* Speech by Minister of Finance for Canada, November 16 2001; available from <<http://www.fin.gc.ca/news01/01-105e.html>>; Internet; accessed 25 October 2003.

<sup>51</sup> "Financial Risk Management for Co Bank Customers Market Commentary" *Outlook* periodical dated 24 September 2003.

<sup>52</sup> *News Release: Gross Domestic Product*; available from <<http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm>>; Internet; accessed 03 November, 2003.

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<sup>62</sup> Greenspan.

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<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

<sup>66</sup> Ibid.

<sup>67</sup> "Enron Fraud Information," *Enron Fraud Information Center*, 01 November 2003; available from <<http://www.enronfraudinfocenter.com/information.php>>; Internet; accessed 01 November 2003.

<sup>68</sup> Greenspan.



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