THE EFFECT OF WAR ON TERRORISM ON THE US ECONOMY
A PAPER SHOWING MAGNITUDE OF THE 9/11 TERROR ATTACKS ON US, COST OF FIGHTING WAR ON TERRORISM AND OPPORTUNITY COST OF THE WAR ON THE AMERICAN ECONOMY.

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The effect of the war on terrorism on the U.S. economy has raised concerns in recent years. Nearly 11 years ago 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 Centre, the Pentagon, and a field in Pennsylvania, killing over 3000 people and leaving several thousands injured. 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.

Since the tragic events, the U.S. government 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 Iraqi government that threatened the freedom and security of the American people and those in other westernized nations around the world.

U.S. symbols of national power are no longer the exclusive targets of terrorist attacks. Terrorists without regard to global condemnation are targeting global capitalist activities and since the start of GWOT, many people have died at the hands of al Qaeda and her aligns that include Al-Shabab terrorizing East Africa with its base in Somalia. Terrorist attacks attributed to al Qaeda after the start of the GWOT include a truck bombing in Tunisia on April 11, 2002 at the
ancient Ghriba Synagogue on the Tunisian Island of Djerba killing 14 German tourists, five Tunisians and two French nationals and more than 30 others wounded; a car bombing of an American hotel in Pakistan that killed eleven French defense contractors residing there in; a French oil tanker attack in Yemen in 2002, and a club bombing in Bali Indonesia in the tourist district of Kuta registered as the deadliest act of terrorism in the history of Indonesia killing 202 people including 88 Australians, and 38 Indonesian citizens and a further 240 people injured. Other terror attacks include the July 2010 Kampala attacks carried out against crowds watching a screening of 2010 FIFA World Cup Final match at two different locations in Kampala on 11 July 2010 leaving 74 dead and injuring more than 70. These were planned and conducted by Al Shabaab an Islamic Somali militia having ties with Al-Qaida. Other attacks also include the recent attacks by Al Shabaab on the Kenyan coastal town of Mombasa killing one person and wounding more than 26 on April 1 2012.

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, a pattern which is alarming.

Declaration of Global War on Terrorism definitely came with a cost implication not only to the US economy but also economies of many of its allies in this struggle. 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.

This paper therefore attempts to analyze the momentum of the 9/11 attacks on the U.S in general and to its economy, cost of fighting the war on terrorism by the US government as well as the opportunity cost of financing this war on the economy. For a deeper analysis of the subject, the U.S. economy pre the 9/11 attacks is reviewed in some cases so as to have a clear comparison with the present status.
When terrorists attacked the U.S, other than the deaths, number of casualties recorded and destruction of property, the aftermath of 9/11 attacks has had profound effects onto the people of United States especially their health and psychologically living in fear of possible future attacks. The thousands of tons of toxic debris resulting from the collapse of the Twin Towers contained more than 2,500 contaminants, including known carcinogens. Subsequent debilitating illnesses among rescue and recovery workers are said to be linked to exposure to these carcinogens. Health effects also extended to residents, students and office workers of Lower Manhattan and nearby Chinatown. Several deaths have been linked to toxic dust, and the victims’ names will be included in the World Trade Center memorial. Approximately 18,000 people have been estimated to have developed illnesses as a result of the toxic dust. A study of rescue workers released in April 2010 found that all those studied had impaired lung functions, and that 30-40 percent reported little or no improvement in persistent symptoms that started within the first year of the attack.

The attacks were also disturbing to children in part because of the frequency with which images were replayed on television. Many schools closed early, especially those with children whose parents worked in Washington, D.C. and New York. In Sarasota, Florida, Emma E. Booker Elementary School became part of history because President George W. Bush was reading to a classroom of children when the attacks happened. When asked for her thoughts on the attacks, the then First Lady, Laura Bush, a former school librarian, gave a very strong warning to parents not to let their children see the pictures over and over, especially young children by turning off their televisions. She gave these warnings based on how children reacted to the Oklahoma City bombing.

As for the economy, it was severely hit. Several things happened many of which still live on. For instance, before the attacks, unemployment rate at the start of 2001 was estimated at 4.2% but the unfolding recession lifted joblessness to 5.7% by the end of the year. The economic drag of 9/11 contributed to the labor pains. An estimated 600,000 jobs were lost as a direct consequence of the terrorist attacks. Of those lost jobs, 226,000 were travel and tourism. At the world Trade Centre, 1,100 businesses were disrupted. It took four years before the
unemployment rate returned to its pre-9/11 level although it rose again to 10.1% by October 2009 but currently stands at 9.1%

    The home ownership rate at the start of 2001 was also valued at 67.5%. The Federal Reserve had a tight monetary policy in place going into 2001, with the target on the federal funds rate at 6.5%. As the recession unfolded, the Fed began to lower rates to stimulate economic growth. Four rate cuts were made in rapid succession after 9/11. The fed funds rate ended 2001 at 1.75%. The median home price peaked at $221,900 in 2006 but fell by 2% in 2007, 10% in 2008 and 13% in 2009.

    As of air travel, in August 2001, U.S. airlines carried 63.8 million passengers and employed more than 520,000 workers but the 9/11 terrorist attacks had an immense and profound effect on the industry. The number of passengers was nearly halved in September 2001, to 34.9 million. The federal government quickly intervened. The Air Transportation Safety and System Stabilization Act, signed in Sept. 22, 2001, gave airlines $5 billion in immediate assistance and $10 billion in loan guarantees to prop up the industry. The airlines now fly 63.8 million passengers as of May 2011, the same number that took flight in August 2001 although flying is not the same as it was fifteen years ago especially with regard to increased security checks and immigration controls.

    In Sept. 10, 2001, gold was valued at $271.50 an ounce. It’s no secret that some investors scurry to gold in times of uncertainty. Gold is considered a hedge against inflation and a weakening dollar, among other things. The week after 9/11 was no exception. Gold prices jumped a quick 8% on the heels of the terrorist attacks. The precious metal continued to rise steadily after 9/11, doubling in value by the end of 2005 and has gone up more than 600%. In contrast, the U.S. dollar has lost about one-third of its value since the attacks.

    On Sept. 10, 2001, gasoline was sold at $1.53 per gallon while price per barrel of oil was $27.66. Oil is a commodity with a volatile history. Prices are often driven by global demand, the stability of producing nations and the whims of speculators. In the days after 9/11, the price of
West Texas intermediate crude rose 7% to $29.59 a barrel. However, oil quickly retreated as fears of economic slowdown trumped worries about scarce supply from the Middle East. Oil prices were little changed on the first anniversary of the terrorist attacks. By Sep. 1, 2011, price per gallon of gasoline was $3.65 and $88.93 per barrel of oil. Oil began to climb appreciably in 2004, and by 2008 it had been bid up to nearly $150 per barrel, largely to concerns that global demand could outpace supply.

After 9/11, the federal government's annual budget surpluses became deficits. Sweeping tax cuts passed in June 2001 came at a time when the economy was already in recession on the heels of the dot-com bust. 9/11, wars in Iraq and Afghanistan have a price tag in excess of $1 trillion and counting. While the deficit shrank between 2004 and 2007, the Great Recession necessitated costly government intervention, including the Troubled Asset Relief Program of 2008 ($700 billion) and the economic stimulus package of 2009 ($800 billion). The federal deficit was $1.3 trillion in 2010.

Having analyzed some of the measurable effects of the 9/11 terror attacks on the U.S., this paper also analyzes the cost of the war on terror on the US economy. Just like any other war, the global war on terror has been expensive with huge cost implications onto the US economy.

Since the 9/11 terrorist attacks, the U.S. initiated three military operations. Operation Enduring Freedom (OEF) covering primarily Afghanistan and other small Global War on Terror (GWOT) operations ranging from the Philippines to Djibouti that began immediately after the 9/11 attacks and continues, Operation Noble Eagle (ONE) providing enhanced security for U.S. military bases and other homeland security that was launched in response to the attacks and continues as a modest level; and Operation Iraqi Freedom (OIF) that began in the fall of 2002 with the buildup of troops for the March 2003 invasion of Iraq, continued with counter-insurgency and stability operations, and is slated to be renamed Operation New Dawn as U.S. troops focus on an advisory and assistance role.
While troops in 2011 were withdrawn in Iraq and increased in Afghanistan, the cost of war continues to be a major issue including the total amount appropriated, the amount of each operation, average monthly spending rates, and the scope and duration of future costs.

A Congressional Research Service Report puts the direct price tag of military interventions in Afghanistan and Iraq at $1.3 trillion during the last decade making the "war on terrorism" second only to World War II in cost to U.S. taxpayers. Breathtaking though, this total may be, does not include domestic appropriations for other national, regional and local security initiatives, such as Homeland Security, which some estimate at an additional $2 trillion or more.

Table 1; Estimated War Funding by Operation: FY2001-FY2012 War in Billions of Dollars

<table>
<thead>
<tr>
<th>Operation and Source of Funds</th>
<th>FY01&amp; FY02</th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY 2012 Request</th>
<th>Cumulative Enacted FY01-FY11</th>
<th>Cum. FY2011 CRA&amp; FY 2012 Request</th>
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</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>0.0</td>
<td>53.0</td>
<td>75.9</td>
<td>85.5</td>
<td>101.6</td>
<td>131.2</td>
<td>142.1</td>
<td>95.5</td>
<td>71.3</td>
<td>49.3</td>
<td>17.7</td>
<td>805.5</td>
<td>823.2</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>20.8</td>
<td>14.7</td>
<td>14.5</td>
<td>20.0</td>
<td>19.0</td>
<td>39.2</td>
<td>43.5</td>
<td>59.5</td>
<td>93.8</td>
<td>118.6</td>
<td>113.7</td>
<td>443.0</td>
<td>557.1</td>
</tr>
<tr>
<td>Enhanced Security</td>
<td>13.0</td>
<td>8.0</td>
<td>3.7</td>
<td>2.1</td>
<td>0.8</td>
<td>0.5</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>28.6</td>
<td>28.7</td>
</tr>
<tr>
<td>Unallocated</td>
<td>0</td>
<td>5.5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Total</td>
<td>33.8</td>
<td>81.2</td>
<td>94.1</td>
<td>107.6</td>
<td>121.4</td>
<td>170.9</td>
<td>185.7</td>
<td>155.1</td>
<td>165.3</td>
<td>168.1</td>
<td>131.7</td>
<td>1,283.3</td>
<td>1,414.8</td>
</tr>
</tbody>
</table>


This is definitely a lot of money, much of which is borrowed. Huge amounts of money are spent not only on direct military operations but also on military construction in setting up bases in Iraq and in Afghanistan, training and equipping Afghan and Iraqi security forces to take over from U.S withdraws, operation and maintenance costs to include transportation costs, procurement of war supplies and many others. Other costs also include re-building programs of
the heavily affected areas due to U.S. operations such as building new cities all of which have a big impact on the U.S. economy.

Figure 1; Showing Boots on Ground in Afghanistan and Iraq, 2001-2010


Although the figure shows a decline in US deployment of troops in Iraq especially from 2007, numbers of troops deployed in Afghanistan has instead soared to more than a fifth in 2010.

The US government has employed a number of mechanisms to raise part of the GWOT funds, among which include taxes. Taxes which are the most important source of money for war spending have dramatically increased like the case with income taxes. In past wars, income taxes
increased, and more so for the rich than the poor. This time, middle-class and wealthy Americans are receiving tax cuts and corporate and excise taxes are changing in similar ways just as war costs escalate, leaving the war effort in peril.

Indirectly, military pressures on the federal budget have restrained aid to the U.S. states, which face massive budget crises far beyond what the modest federal bailout of 2003-04 can cover. Wartime thus contributes indirectly to the devastating cuts that have hit local programs and services, from schools to police and fire departments.

Interest payments to service the national debt is anticipated to over $250 per household monthly to rise sharply for years to come. Running up debts in wartime is not unusual, but contributes to longer term problems, notably inflation.

In addition to government war spending, budget cuts, and inflation, other hidden costs of war take their toll. Wartime conditions disrupt economic growth and affect financial markets, commodity prices, investment patterns, and unemployment in complex ways that are more negative than positive overall.

What does the approximate $3 trillion government spending and other un-quantifiable costs mean to the US economy and its citizens? This paper therefore also analyzes these in form of opportunity costs of fighting the war on terror.

Opportunity costs of the global war on terror are crucial because they give an insight into other alternatives that the American government would have sought if it had not invested in the war. The war has had implications on expenditure patterns in the country owing to the fact that some expenditures had to be foregone.

War on terror caused the US government to reduce the amount of expenditure that they dedicate to economic investments. For instance, the US government reduced the amount it spends on construction of residential buildings, expenditure on health, education and
infrastructure investments. Increasing budgetary deficits linked to the war in Iraq and Afghanistan, increasing cost of fuel and debt repayments caused by getting loans to finance the war are additional macro economic opportunity costs.

Human opportunity costs are also immense. One cannot ignore the effects that the global war on terror had on numerous US citizens who chose to fight the war directly. Estimates indicate that over 3500 soldiers have died from the war. There is no way one could estimate the positive impacts that these individuals would have brought onto the US economy if they were still alive. Other 26,000 have been wounded as a result of the war. These soldiers would have committed a substantial level of their efforts towards other economically productive activities in the country. (Belasco, 2007)

Militarily, the war on terrorism could have been tackled in a different way thus representing the opportunity that the US had to forego by choosing the path of war. Government for instance could have dedicated more finances towards homeland security so as to prevent future terrorist threats. Additionally, the government could have chosen to partner with Afghanistan by giving them aid. This would foster economic development and would also encourage democracy since one cannot receive grants or loan if they do not adhere to democratic principles. (Chernick, 2006)

Unlike previous wars such as the confederacy war which brought national economic integration and end of slavery, World War II which brought an end to the great depression and decades of America’s economic hegemony, economic benefits of the war on terror on the U.S economy have not sufficed yet.

The truth of the matter is that the global war on terror resulted in concentration of military activities yet these would have otherwise been directed towards other significant economic opportunities. For instance, the issue of soaring gas prices would not have been prevalent if the government had not participated in the war. Similarly, the global war on terror
could have been tackled in a different manner so as to achieve greater outcomes. Besides that, it resulted in human related costs that would have benefited the country today and in the future.

It is against these and more reasons that more than 80 percent of experts on economic implications and opportunity costs of the war assert that the US government made a big mistake in fighting the global war on terror. This is because the country has not won the war yet implying more costs as well as the war contributing to immense levels of suffering among citizens in the country and outside United States.

Eleven years since the attacks, this paper can conclude that “probably”, the planes that hit New York and Washington did less damage to United States of America than the later events on the Global War on Terrorism.
REFERENCES


