

Long Run Consequences of the Terrorist Acts—Possible Stimulating Effects

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I am afraid that my only qualification for speaking to you on this subject is that I saw part of the September 11th horror, and my wife saw virtually all of it, from our window—we were that close. You will forgive me for reiterating the view that our proper response is to behave as we would have normally and not even to give up our sense of humor. And this facilitates characterization of the task of this panel for, as Allen Blinder has reminded me, economists are competent to forecast anything except the future. The fact is, is that I do not know what the consequences of that terrible day will be, and I suspect that I am not alone in that qualification.

Clearly, the fanatics on September have achieved their immediate objectives, the symbolic destruction of those two tall buildings and the number of innocent lives they took in the process. But the question before us, rather, is have they achieved far more? They have inflicted a wound that surely will not prove fatal, but it is a very substantial wound that has significantly affected our economy. And as John Virgo has just pointed out, for the short run, from their perverted point of view, the terrorists have already achieved a great deal. They have damaged the travel industry, they have further weakened the already shaky finances of the airlines, they have, even more universally, created added difficulties for our lives, with attendant economic costs, as we are forced to subject ourselves to additional inspections, delays, and a multitude of other complications. Those costs are already being paid by us in spades.

But that is the short run picture. For the long run my main fear is neither for the U.S. economy nor for that of the world, but for the economy of New York City. Its vulnerability lies in the substantial period during which the city has faced a danger that has also manifested itself, often in more drastic form, in urban areas throughout the United States and in other countries. In brief, with technological change during the twentieth century, cities have lost at least part of their purpose. They are no longer the ideal manufacturing centers that they patently were in the nineteenth century. The transportation network that operated primarily by rail, and for which the city was the best terminus, has been replaced by truck and air transportation to a considerable degree, giving a clear advantage to the outlying areas. And then, the utterly fantastic innovations in communications, the introduction of new and powerful mechanisms such as the telephone and the Internet, have added yet another threat to the advantages of centralization. Clearly, New York had until that day of infamy largely succeeded in defying those threats. Not that it has been immune from them, but it had managed to achieve some substantial substitution. It has lost manufacturing, but it gained other things, including its enormously expanded financial activity. But now the bombing, the destruction, the understandable likelihood that people will be unwilling to work at the top of

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tall towers in the future, have added strength to the forces for decentralization in what was one of the most vital activities of the city, its financial activity. And already we see threats of firms moving to New Jersey, Connecticut, and other areas and it is not clear what will replace them in the city.

But for the economy as a whole, I suspect that perhaps in six or eight months, I select numbers arbitrarily, we may well see effects opposite from those of the short run. Here I turn to the old joke about two Israelis discussing what should be done to stimulate their economy. One of them comments. "Well that is easy; look what happened to Germany and Japan after the war. Clearly, our best move is to declare war on the United States." The other thinks briefly and responds: "It will not work. With our luck we would probably win." The fact is, that destruction and war, regrettably, have often proven to be economic stimuli. They have helped to get us out of the great depression, they have been followed by the astonishing growth rates of the decades after World War II and they have had similar effects elsewhere. I was in Puerto Rico after one of its worse hurricanes in recent years and saw the economy advance and certainly not decline in its wake. So there is at least some reason, supported by research on other local catastrophes that has been carried out by others, suggesting that the long-term economic effects may well prove stimulative. This entails both an obvious Keynesian stimulus and the opportunity to substitute for obsolete facilities more modern alternatives that are more efficient and more effective.

There is another important source of hope for the future. I was just in Paris a week ago, and a remarkable new spirit of cooperation and unity of purpose repeatedly manifested itself. When my wife and I entered a restaurant, or met people at the Sorbonne, or we opened messages on the Internet, invariably the others would begin by saying, "We are with you." I think one of the things that came out most clearly after the events of September 11 is that we are indeed inhabitants of one world; that terrorism is not just a threat to us alone. In the words of that most famous of Philadelphians, "We must hang together or we will hang separately." I am left with the feeling that there is a new recognition of the pettiness of petty differences. That may yet make a difference for society, for the world and, among other things, for the world's economy. *Atlantic Econ. J.*, 29(4): pp. 358-359, Dec. 01. ©All Rights Reserved