

The Economy, Global Finance, and Inequality

Following the terrorist attacks on 9/11, an already weak international economy was weakened further. The attacks occurred as the world economy was experiencing its first synchronized global recession in a quarter-century. Global growth was 1.4% for 2001 – down considerably from 4% in 2000. As a result of stimulus monetary and fiscal policies, particularly in the United States and China, the recession turned toward a weak economic recovery.

Prior to 9/11, the slowdown in the U.S. economy already was being transmitted to other economies through trade and investment channels, particularly through a sharp decline in U.S. imports of high-technology components from Asian suppliers. The aftershocks of the terrorist attacks were felt immediately in foreign equity markets, in tourism and travel, in consumer attitudes, and in temporary capital flight from the United States. Central banking authorities worldwide reacted by injecting liquidity into their financial systems. After a few months, most began to turn upward again, but what recovery has occurred has been fragile and difficult to sustain. (Gail Makinen,2002)

The recession, along with increased government spending for the anti-terrorism campaign, contributed to rising federal debt in the United States and other nations. Combined with a weakening dollar that pushed up the exchange value of the yen, Euro, Chinese renminbi, and other currencies, central governments intervened to bolster the value of the dollar by purchasing more U.S. debt instruments.

Since 9/11, in particular, stock market values in the United Kingdom, Germany, France, Canada, and Japan have tended to move in tandem with those in the United States. On each of these markets, equity values, after initially recovering from the 9/11 shock, have subsequently fallen, and on September 11, 2002, they generally were below

the lowest values reached in the immediate aftermath of 9/11. (World Economic Outlook, 2001)

Accordingly, citizens and institutions worldwide now are clamoring for more security, but that security comes at a price. Insurance costs, in particular, have risen – in part because of 9/11 but also because of subsequent events. Terrorism coverage has been under review worldwide. It is scarce, and where available expensive.

In what might prove to have significant medium- and long-term effects, increased border security slowed shipments not only of final goods but also of inputs in the supply chain of manufacturers. Some automobile assembly plants along the U.S.- Canadian border, for example, had to stop temporarily or slow operations because cross-border shipments necessary for just-in-time inventory systems were delayed at the border. Easing these bottlenecks while maintaining security is requiring large capital outlays for new equipment and more paperwork. The net effect of these additional costs of international trade could be that businesses will rely less on overseas production and have to adjust their just-in-time production methods. They may have to return to maintaining larger supply inventories which could raise costs.

The movement toward liberalization of world trade, however, seemed resistant to the terrorist attacks. In the World Trade Organization's Fourth Ministerial Conference in Doha, Qatar, on November 9-14, 2001, participants launched a new round of global trade liberalization talks. The change in U.S. political, security, and diplomatic relations necessitated by the war on terrorism and Afghan campaign also had economic repercussions. U.S. aid policy took an abrupt turn in favor of providing assistance to Afghanistan and front line states, such as Pakistan and the Central Asian republics.

In its 2001 third quarter GDP release, the Bureau of Economic Analysis (BEA) stressed that most of the direct effects from the attacks were embedded in the data, so that no overall estimate could be made for the attacks' direct effect on GDP. The U.S. National Income and Product Accounts (NIPA) estimate the losses to property from the September 11 attack at about \$16 billion, just over 0.15 percent of annual GDP and an even smaller percentage of the U.S. capital stock (U.S. Bureau of Economic Analysis 2001a, b)

A sharp drop in consumer confidence or a decision by business to postpone capital investments in the face of uncertainty deepened the recession. Individuals and businesses may suddenly fear that they would not have access to currency or that the payments system involving checks and other credit instruments, essential to the smooth functioning of a market-economy, might not be operable. As a result, they were tempted to go to banks and withdraw large amounts of currency. Bank might not have sufficient cash on hand to honor these requests and, in extreme circumstances, ceased operations. In these circumstances, the payments system, involving checks and credit, also ceased to function. Moreover, in the 9/11 episode, part of the crucial infrastructure that facilitates the clearing of checks, ceased to function. This alone led to extreme caution in lending. The financial crisis started to begin.

The destruction of the World Trade Center forced a suspension of financial activity in lower Manhattan, the world's leading financial center. Despite the terrible human losses, and the considerable damage to physical and electronic infrastructures. The 9/11 attacks dislocated, disrupted or destroyed nearly 18,000 businesses—the vast majority being small businesses—in and around New York City's World Trade Center

(WTC) complex (Glaeser&Shapiro, 2002). Economic disruption quickly spread to countless firms across the United States. The events of 9/11 immediately also affected the U.S. labor market. The displacement of workers posed financial difficulties for job losers with little other income, particularly if their jobless spells were lengthy. Increased unemployment also meant less revenue for the federal government at a time of unexpected spending needs (e.g., due to military action in Afghanistan), and for state governments, some of which were grappling with tight budgets. (World Trade Center Disaster)

The cause of the attack experienced the global inequality and poverty issue. Basically, poor people will resort to violence (either in the form of terrorism or through other criminal activities like drug smuggling) to change the political and economic system that they believe is responsible for their poverty (Vincent Ferraro, 2003). The three elements common to all terrorism are: (1) a grievance that the terrorists are protesting and perhaps trying to resolve; (2) an ideology or set of beliefs that identify and explain the grievance and what to do about it; and (3) a belief that terrorism can contribute to that grievance's solution (Carol Lancaster, 2003). Not just in Afghanistan, but also in the neighboring regions, in many other countries. The war is viewed in terms of the face of Bin Laden, the terrorism of Al Qaeda, the rubble of the World Trade Center and of the Pentagon, but these are just symptoms. The disease is the discontent seething in Islam and, more generally, in the world of the poor (World Bank, 2001).

Despite the assumptions often made in the wake of the attacks of September 11 that world poverty was somehow a source or motivation for those attacks, terrorist grievances almost never include poverty. Others (especially in Europe) argue that poverty

breeds the discontent that leads to terrorism. This argument is much like one heard during the ColdWar—that poverty bred discontent and discontent increased the allure of communism, or led to chaos that opened opportunities for communist gains. Eliminating poverty was, therefore, important to eliminate the causes of discontent, violence, radicalism, and (now) terrorism. Certainly, the vast differences in wealth, education, health, and life prospects among and within countries can feed a general sense of social injustice and righteous anger on the part of those—often youth—who are sensitive to such issues.

In some cases there does appear to be an indirect relationship between poverty and the poor governance (corruption, exclusion, and repression) that can lead to civil violence and state collapse. These conditions, in turn, can spread throughout a region, producing widespread insecurity and possibly creating havens for terrorists or criminals who can organize and attack targets elsewhere, including in the United States. September 11 attack is the embodiment of that inequality issue. However, not all cases of civil violence and state collapse occur in the poorest countries (see Colombia, Algeria, and Chechnya), and not all poor countries suffer from such violence. They are vulnerable to crime and thuggery, to the evaporation of rule of law and political institutions, and to the repression of dissident groups (which are often ethnically or religiously distinct)—all factors which may provoke internal violence and chaos.

In order to avoid the same reason lead to the catastrophic in 2001, reducing poverty and improving education, health, and the economic well-being of a population may, all things being equal, lead to better governance over time and fewer opportunities for terrorist or criminal elements to operate in these countries.

First, countries need institutional innovation in the international arena that will help assure accountability, participation, and empowerment of the poor. International community must also deal effectively with the international spillovers of national actions in such areas as trade, environment, health, security, poverty and hunger, labor and capital flows, technology, drugs, and terrorism. *Second*, developing countries—particularly low-income ones—desperately need to (a) expand investment in the creation of public goods, and (b) improve governance. *Third*, policies and public investments are needed to help people out of hunger and poverty in the short run. *Fourth*, development assistance must be expanded—primarily to assist the poor and hungry to improve their situation, but also to improve national and international stability and to reduce the risk of future terrorism. More development assistance will also expand mutually beneficial trade (Per Pinstруп-Andersen, 2003). Experience from Southeast Asia shows that rapidly growing developing countries provide very strong markets for U.S. agricultural and nonagricultural goods and services. All above recommendations must see the involvement of the United States – the richest country that has become the inspirational target of extremist and terrorist attack.

References

- Carol Lancaster (2003). Poverty, Terrorism, and National Security. *ECSP Report Issue 9, Chap 2, pg 19-22* – Wilson Center. Retrieved from:
http://www.wilsoncenter.org/sites/default/files/commentaries_povsec_12-27.pdf
- Edward L. Glaeser and Jesse M. Shapiro (March 2002). Cities and Welfare: The Impact of Terrorism on Urban Form. *Journal of Urban Economics, vol. 51, no. 2, p. 214.*
- Gail Makinen (2002, September 27). The Economic Effects of 9/11: A Retrospective Assessment. *Report for Congress*. Retrieved from
<http://www.fas.org/irp/crs/RL31617.pdf>
- Per Pinstrup-Andersen (2003). Eradicating Poverty and Hunger as a National Security Issue for the United States. *ECSP Report Issue 9, Chap 2, pg 22-27* – Wilson Center. Retrieved from:
http://www.wilsoncenter.org/sites/default/files/commentaries_povsec_12-27.pdf
- The World Bank (2001, December 7). Reprint of *La Stampa* interview of James Wolfensohn. Retrieved from:
<http://www.worldbank.org/html/extdr/extme/jdwint120701b.htm>.
- U.S. Bureau of Economic Analysis, 2001a, *Survey of Current Business*, November, 2001b, *Gross Domestic Product: Third quarter 2001 (Preliminary)*. *Corporate Profits: Third quarter 2001 (Preliminary)*. News Release, November 30.
- Vincent Ferraro (2003). Globalizing Weakness: Is Global Poverty a Threat to the Interests of States?. *ECSP Report Issue 9, Chap 2, pg 12* – Wilson Center.
Retrieved from:

http://www.wilsoncenter.org/sites/default/files/commentaries_povsec_12-27.pdf

World Economic Outlook (December 2001). How Has September 11 Influenced the

Global Economy? *The Global Economy After September 11, Chap II -*

International Monetary Fund. from:

<http://www.imf.org/external/pubs/ft/weo/2001/03/pdf/chapter2.pdf>

World Trade Center Disaster: Final Action Plan for New York Business Recovery and

Economic Revitalization. (n.a) *Empire State Development in cooperation with*

New York City Economic Development Corporation. January 30, 2002, p. 2.

Retrieved from: <http://www.optimalspaces.com/images/overallactionplan.pdf>