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ECONOMIC COSTS OF TERRORISM POSE POLICY CHALLENGES

WASHINGTON, D.C. -- The short- and long-run costs of terrorism following the events of September 11 have yet to be comprehensively measured, but the long-term costs appear high enough to consider offsetting tax and insurance measures, according to a new JEC study released today by Joint Economic Committee Chairman Jim Saxton and Congressman Phil English. The new study, *The Economic Costs of Terrorism*, reviews and analyzes current estimates of the economic impact of the terrorist attacks.

"The economic costs of terrorism are difficult to measure because of their complexity and pervasive impact throughout the economy," Saxton said. "Over the long run, resources that would otherwise have been devoted to increasing the quantity or quality of output will instead be spent on necessary security and various other measures related to countering the terrorist threat. Terrorism will impose a number of additional transaction costs and inefficiencies that will have a broad negative impact on the economy," Saxton concluded.

"As evidenced by today's JEC report, terrorism has had a significant impact on our economy; whether that cost continues to grow depends upon our policy response," English said. "Efficiently functioning insurance markets are crucial for the economy. Without a federal partnership on terrorism insurance we are clearly going to see a loss of jobs. The Federal Government has an important role to play by ensuring the smooth operation of the markets in an area that is obviously beyond the capacity of the private sector," English concluded.

Various preliminary estimates of the costs imposed by the terrorist attacks are significant in dollar terms but not especially large in terms of shares of GDP. The study notes that a list of some of these costs would include travel delays, additional security checks and inspections, longer cross-border transfers, higher construction costs, higher insurance costs, additional informational requirements, higher shipping costs, more regulation, higher inventory levels, slower mail delivery, and similar items.

The study notes that these costs have microeconomic effects similar to the imposition of a "terrorism tax." However, these counterproductive effects are not associated with any actual tax revenue. These negative economic effects could be offset by various tax relief measures and policy actions to facilitate insurance against possible future terrorist acts.

For a copy of the study, *The Economic Costs of Terrorism*, please visit the JEC website at www.house.gov/jec.

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