



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Member

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September 17, 2004

### Alan Greenspan On the Economic Impact Of September 11<sup>th</sup>

Dear Colleague:

The terrorist attacks on the United States on September 11, 2001, were an affront to all standards of human conduct. The pain and grief that they imposed upon innocent Americans were unconscionable.

It is important that we assess the *economic* impact of those attacks accurately, however. If we do not, we run the risk of incorrectly absolving policy errors for the subsequent substandard performance of our economy. We might then fail to correct those errors, and so reduce our prosperity and opportunity for years to come.

In his testimony before the House Budget Committee last week, Federal Reserve Board of Governors Chairman Alan Greenspan provided an important perspective on this question. Chairman Greenspan was essentially asked by a Committee member to comment on the connection between the September 11 attacks and subsequent economic performance. Chairman Greenspan made clear that the *economic* ill effects of September 11<sup>th</sup> were quite limited — in fact, far more limited than economists anticipated at the time:

**Question:** I'd love for you to talk a little about September 11th, because it's my understanding that we lost over a million jobs and I have met constituents of mine who have never recuperated from those job losses. In other words, their businesses simply tanked.

So could you, kind of, put some perspective in terms of 9/11 and jobs?

**Greenspan:** Immediately after 9/11 we had expected a very significant contraction in economic activity, which was likely to be prolonged.

Within a matter of weeks, or a few months at the longest, it became quite evident that the economy had achieved a degree of resiliency which we had not suspected

it had, and it stabilized reasonably quickly and started to grow again at a fairly modest but eventually accelerating pace.

But we are also, remember, in the tail end of a very protracted increase in the growth rate in productivity, which means, obviously, that productivity itself is accelerating. And as a consequence of the increased deficiencies which invariably tended to focus on how does one reduce costs and improve the value added of the economy, it turned out that the significant part of cost reduction, two-thirds of it, is invariably labor costs.

And therefore, there was considerable pressure on labor costs, and indeed one of the reasons why the labor markets were so poor is that efficiency was so high.

So it's an odd combination of events, something which is extraordinarily important and good for the economy over the longer run was creating very significant problems for a number of Americans who were losing their jobs.

**Question:** But we heard after 9/11 that there were over a million jobs lost, and a number of those didn't come back. It would be fair to say had September -- and I don't mean 9/11, I call it September 11 -- the tragedies of September 11th, had they not occurred, we could make an assumption that there would be significantly greater employment today, is that not true?

**Greenspan:** I don't know the answer to that.

It is fairly apparent that the job losses, for example, in manufacturing, which are still not recovered, were the consequence of extraordinary increases in efficiency. So I have to assume, obviously, that with the general weakness in the economy that part of the job loss was there. But as the chairman [said], in pointing out the GDP data, it was one-quarter of decline, and it wasn't a very large decline at that.

So even though the September 11<sup>th</sup> attacks have caused immeasurable human costs, the *economic* costs should not be exaggerated. As Chairman Greenspan indicated, the September 11 attacks played only a limited role in the economic weakness that the nation has experienced over the last three years.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member