

After the Horror

By PAUL KRUGMAN

It seems almost in bad taste to talk about dollars and cents after an act of mass murder. Nonetheless, we must ask about the economic aftershocks from Tuesday's horror.

These aftershocks need not be major. Ghastly as it may seem to say this, the terror attack — like the original day of infamy, which brought an end to the Great Depression — could even do some economic good. But there are already ominous indications that some will see this tragedy not as an occasion for true national unity, but as an opportunity for political profiteering.

About the direct economic impact: The nation's productive base has not been seriously damaged. Our economy is so huge that the scenes of destruction, awesome as they are, are only a pinprick. The World Trade Center contained 12 million square feet of office space; that's out of 375 million square feet in Manhattan alone, and 3.5 billion in the United States as a whole. Nobody has a dollar figure for the damage yet, but I would be surprised if the loss is more than 0.1 percent of U.S. wealth — comparable to the material effects of a major earthquake or hurricane.

The wild card here is confidence. But the confidence that matters in this case has little to do with general peace of mind. If people rush out to buy bottled water and canned goods, that will actually boost the economy. For a few weeks horrified Americans may be in no mood to buy anything but necessities. But once the shock has passed it's hard to believe that consumer spending will be much affected.

Will investors flee stocks and corporate bonds for safer assets? Such a reaction wouldn't make much sense — after all, terrorists are not going to blow up the S.&P. 500. True, markets do sometimes react irrationally, and some foreign markets plunged after the attack. Since then, however, they have stabilized. On the whole it's just as well that our own markets have stayed closed for a few days, giving investors time to calm down; the administration was wrong to put pressure on stock markets to reopen right away. By the time the markets do reopen, the worst panic will probably be behind us.

So the direct economic impact of the attacks will probably not be that bad. And there will, potentially, be two favorable effects.

First, the driving force behind the economic slowdown has been a plunge in business investment. Now, all of a sudden, we need some new office buildings. As I've already indicated, the destruction isn't big compared with the economy, but rebuilding will generate at least some increase in business spending.

Second, the attack opens the door to some sensible recession-fighting measures. For the last few weeks there has been a heated debate among liberals over whether to advocate the classic Keynesian response to economic slowdown, a temporary burst of public spending. There were plausible economic arguments in favor of such a move, but it was questionable whether Congress could agree on how to spend the money in time to be of any use — and there was also the certainty that conservatives would refuse to accept any such move unless it were tied to another round of irresponsible long-term tax cuts. Now it seems that we will indeed get a quick burst of public spending, however tragic the reasons.

Now for the bad news. After the attacks, I found myself wondering whether some politicians would try to exploit the horror to push their usual partisan agendas. Then I chided myself for such an uncharitable thought. But it seems you can't be too cynical; sure enough, the push is already on to sell tax breaks for corporations and a cut in the capital gains tax as a response to terrorism.

One hopes that the White House will distance itself from this disgraceful opportunism, that it will deliver the bipartisanship it originally promised. But initial indications are not good: the administration developed its request for emergency funding in consultation with Congressional Republicans — full stop. A Democratic contact says that his party received "no consultation, no collaboration, virtually no information."

I didn't want to mention this, but now is the time to draw the line. This tragedy will only be magnified if it is exploited for political gain. Politicians who wrap themselves in the flag while relentlessly pursuing their usual partisan agenda are not true patriots, and history will not forgive them.