

Macro-economic Impacts of Terrorist Attacks

Thomas Stinson
University of Minnesota

Abstract

Quantifying the losses from terrorism is a sobering but important task. Such estimates aid policy makers as they allocate scarce resources among competing demands. Calculating the direct economic losses—the value of the lives and income lost by those directly affected by the attack—is a sobering but relatively straight forward first measure of the cost of terrorist actions. But, those micro-level losses are likely to be small when viewed against the entirety of the U.S. economy. The collateral, or indirect economic damages created to the broader macro-economy will almost certainly be much larger, since even a small, temporary decline in the growth rate in a \$13 trillion economy is likely to dwarf the direct losses from terrorism.

The national economic impacts of a terrorist attack were estimated using a large-scale econometric model of the U.S. economy. Exogenous shocks were applied to consumer sentiment, a stock market index, interest rates and the value of the dollar. The magnitudes of the shocks were based on actual changes observed following previous geopolitical incidents directly affecting the United States. After four quarters the economy was allowed to grow along the same growth path as in the baseline scenario. No long-term productivity changes were assumed. Under conservative assumptions cumulative losses in real GDP over the five-year simulation period were estimated to be in excess of \$190 billion.