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World's economy a target

Stocks rebound; confidence at risk

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The Atlanta Journal-Constitution

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Thursday's bloody terror attacks in London could dampen global economic growth by once again shaking the confidence of consumers and businesses, economists said.

In just a few moments, the murderous rush-hour onslaught in London killed scores of people, injured hundreds of others and paralyzed one of the world's preeminent financial centers.

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"I think that had to be part of their thinking — to not only kill a lot of people but to damage the whole system," said Darel Paul, professor of political economy at Williams College in Massachusetts, who recently returned from four months teaching in London.

"Their goal is mainly political, but there are economic ramifications — and they are intended

Terror — and the fear of terror — is a drag on the economy in a number of ways. Lives, incomes and property are lost. Security is necessary, but unproductive, costly. Travel looks less attractive. Uncertainty chills spending. Risk hangs over every investment.

Thursday's bombing did have immediate economic effects that were predictable: Bond prices climbed, interest rates dipped, the dollar rose briefly, the value of the dollar declined and stock markets dropped.

Yet by day's end, the U.S. stock market was back on positive turf.

Markets do typically return to their previous patterns after dramatic and tragic events send them into a tailspin. Thursday's rapid recovery seemed a sign that market professionals have grown ever more accustomed to shocks and are ruthlessly quick in returning to normal.

Longer-term economic impact is hard to judge — and may even be hard to see afterward.

For example, the Sept. 11, 2001, attacks on the United States virtually froze consumer spending for a month, but it surged again in November, which had been in recession since March, was growing again in November.

Still, total losses from the destruction of the World Trade Center buildings ran to a staggering \$83 billion, including tens of thousands of jobs, according to the U.S. Government Accountability Office.

Worry hung over consumer and business decisions for many months, dampening that recovery, said economist Campbell Harvey of the University of North Carolina, who regularly surveys business attitudes.

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"Among the U.S. firms we asked recently, 35 percent said the threat of terrorism was affecting their bottom line," he said.

Worried about ripples

The bloodshed in London will seem more distant to Americans than the events of Sept. 11. Consumers will not likely return to but the bombings will bring terror back into their minds, Harvey said.

"I don't think it has moved attitude significantly," he said. "What I am worried about are ripple effects. If something happens he would be devastating."

Even without another attack on U.S. soil, worry about terror makes international capital move more sluggishly, according to a released paper by Harvard economist Alberto Abadie and Javier Gardeazabal of the University of the Basque Country in Spain

One strong signal about expectations for the global economy came in the sliding price of oil. After weeks of concern that production ahead of global needs, traders were betting that growth would slow, dampening demand for crude oil.

Price of oil drops

After hitting a record high Wednesday, oil fell nearly \$2 a barrel before closing down 55 cents to \$60.73.

That sentiment might change if there is more attention paid to some news that was lost in the fury of concern about the London

According to the Financial Times, senior Saudi Arabian officials had quietly informed their U.S. and European counterparts the Organization of Petroleum Exporting Countries was approaching a time when it will not be able to meet demand for oil.

Saudi Arabia was the birthplace of Osama bin Laden and was the original focus of al-Qaida's demand for U.S. troop withdrawal

But those demands now include other states, such as Iraq and Afghanistan. And the al-Qaida strategy has both geopolitical and implications.

Since the 2001 hijackings in the United States, large-scale attacks have come against Australian tourists in Bali, commuters in and now transit riders in London.

If, as many believe, the London attackers are linked to al-Qaida, they are hoping to split the United States from its allies, while Europe, said Adam Posen, senior fellow at the International Institute for Economics in Washington.

"If there are divisions in the continental alliance, it means less-smart economic policies and fewer countries in the euro zone," will be a drag on U.S. growth and a drag on world growth."

With every attack, the pall of uncertainty thickens over all economic decisions, said economist Kashif S. Mansori of Colby College

And that is a key part of terror's intent, he said.

"It's very hard to measure, but I think it is very real. It's about confidence and making the future seem less certain. If the terrorist it's a successful attack," Mansori said.

In economic terms, the London attacks were in some ways far different from those of 9/11.

Still, the parallel between New York and London is clear, Mansori said. "If you think of it, the target was really the same as on 9/11: finance and tourism," he said.