The Economic Shock of September 11

How Federal Dollars Were Allocated After the Attacks

Learning Targets

- ★ Explain the rule that lets federal disaster aid begin.
- ★ Name the four channels that carried most federal aid.
- ★ Sort federal disaster aid into its four main purposes.
- ★ Explain how a cap rule limited airline payments.
- ★ Check whether the reported aid totals add up.

What Stopped, and What This Lesson Asks

What Stopped

- Aircraft nationwide were grounded within hours.
- The NYSE closed for six days; a business district halted.
- A profound loss of life reshaped the city and country.

Two Questions to Answer

- How much moved? Roughly $20 billion in federal aid.
- What rule decided where it went? One audit explains.

Note: This lesson tracks the money and the rule, not the attack itself.

Six Days

- Wall Street firms lost access to office buildings and phone lines.
- Trading resumed on the exchange after six days.
- Utility crews restored power and phone service to lower Manhattan first.
- Reopening the exchange required repaired infrastructure, not just a decision.
- GAO-04-72 documents the New York Stock Exchange reopening.

Did You Know: September 11 plus six days is September 17, 2001.

Aviation Comes to a Halt

✓ **First Hours**	Federal aviation officials acted while the attacks were underway.
✓ **Ground Stop Order**	A federal order that halts aircraft takeoffs across the country.
✓ **Scope**	Affected every commercial flight in U.S. airspace at once.
✓ **Consequence**	Produced the airlines' direct losses used later in the cap rule.

Key Concept: The order was mandatory, not a business decision by any airline.

Two Timeframes of Airline Harm

- Airlines were harmed in two different ways after the order.
- Direct harm came only from the mandatory order period itself.
- Incremental loss: added expense from a single event, beyond normal swings.
- That window closed on December 31, 2001.
- Federal law later covered carriers for both kinds of harm.

Note: DOT determined the dollar amount for each airline.

Congress Answers in Eleven Days

- Congress passed the Air Transportation Safety and System Stabilization Act.
- The law was signed September 22, 2001 - eleven days after the attacks.
- It provided $5 billion in direct compensation to air carriers.
- Loan guarantee: government promises to repay a lender if the borrower cannot.
- It also authorized up to $10 billion in federal credit support.

Key Concept: Two tools were used together - direct cash and government-backed credit.

The Cap Rule

1

Capacity Share

An airline's share of all industry flying, used to set its payment limit.

2

Lesser Of

Pay equaled the smaller of the airline's losses or its formula amount.

3

DOT's Number

The airline's determined direct and incremental losses.

4

Two Carriers

Same losses, different cap, because their sizes differed.

Remember: A smaller capacity share can mean a smaller cap - that is arithmetic, not unfairness.

1.6 Million Tons

- The collapse left an enormous volume of wreckage on the site.
- Crews screened, sorted, and removed nearly 1.6 million tons of debris.
- Debris removal cost $1.70 billion of the initial response total.
- That $1.70 billion sat inside the $2.55 billion initial response.
- This scale of work is why the debris-removal price tag is so large.

Note: Debris removal was the single largest line item inside initial response.

Debris Removal at the World Trade Center Site

Debris removal at the World Trade Center site, October 2001.

The Rule That Starts the Money

- Federal disaster aid does not all reach a city the same way.
- Federal help under this law covers costs a state or city cannot handle alone.
- Stafford Act: the federal law that pays costs a state or city cannot cover.
- This threshold rule decided when federal money could start moving at all.
- Every dollar in this lesson flows through that threshold rule.

Key Concept: Federal aid begins only where state and local capacity ends.

Coordination and the Two Pipes

FEMA	Coordinates the federal disaster response overall.
Federal Response Plan	Signed by 27 federal agencies and the American Red Cross.
Pipe One	Routine assistance under the threshold rule already covered.
Appropriation	Money Congress sets aside by law for a stated purpose.
Pipe Two Example	HUD's block grants for economic development moved this way.

Key Concept: Same federal dollar, two different pipes for reaching it.

Four Channels Carried 96 Percent

FEMA	HUD	DOT	Liberty Zone
• FEMA received $8.80 billion. • It coordinates the response. • Aid needs the threshold met.	• HUD received $3.48 billion. • Its grants fund business aid. • Includes $1.16B unassigned.	• DOT received $2.37 billion. • It paid for transit repair. • It sent airline payments.	• Benefits totaled $5.03 billion. • Seven tax provisions, not cash. • It targeted one district.

Note: Channel amounts are rounded, so they add to slightly more than $19.63 billion.

A Boundary, Not a Check

- One of the four channels was not a cash payment at all.
- It worked through the tax code rather than a cash payment.
- Liberty Zone: lower Manhattan given special federal tax breaks, post-attack.
- Seven separate tax provisions applied inside this one defined area.
- The boundary itself was the rule - being inside the zone was what mattered.

Key Concept: This channel worked through the tax code, not a check.

Where the Money Went

Purpose	Amount
Initial response	$2.55 billion
Compensation for disaster-related costs and losses	$4.81 billion
Infrastructure restoration and improvement	$5.57 billion
Revitalizing the local economy	$5.54 billion

Note: Every amount here is a snapshot taken on June 30, 2003, not a final total.

Inside One Bucket

Line Item	Amount
Search and rescue operations	$22 million
Debris removal operations	$1.70 billion
Emergency transportation measures	$299 million
Emergency and temporary utility repairs	$250 million
Testing and cleaning efforts	$53 million
Other initial response services	$232 million

Note: These six line items, as of June 30, 2003, add up to about $2.55 billion.

The Government Takes On the Risk

- Part of the debris-removal work created an unusual money problem.
- Contractors needed coverage for claims tied to the removal work itself.
- Liability insurance pays claims when work causes harm to someone else.
- FEMA capitalized a $1 billion company to provide that exact coverage.
- This was risk transfer, not a policy the government simply purchased.

Key Concept: The government became the insurer, rather than buying a policy.

How the Money Actually Reaches Someone

What a rule provides

- Eligibility under a federal rule.
- A benefit category with a dollar ceiling.

What still has to happen

- Registration in person or by phone.
- Paperwork reviewed by a caseworker.

Note: A rule on paper still needed a person to process the claim.

A Disaster Assistance Service Center in New York City

A FEMA worker reviews paperwork with a business owner, November 2001.

Check the Arithmetic

Add the Four Purposes	Add the four purposes: \$2.55B + \$4.81B + \$5.57B + \$5.54B.
The Subtotal	That sum equals about \$18.47 billion.
Unassigned HUD Funds	An extra \$1.16 billion in HUD money had no specific project yet.
The Grand Total	\$18.47 billion plus that amount equals \$19.63 billion.

Note: A federal audit's own numbers can be checked with a calculator.

Assigned, Not Yet Spent

- Every figure in this lesson is a snapshot as of June 30, 2003.
- Committed funds: money assigned to a specific project, though not yet paid.
- Long-term infrastructure and recovery work still had years to go.
- Economic revitalization: spending meant to bring businesses, jobs, people back.
- A snapshot is not a final total; more of this money moved after June 2003.

Remember: An assignment on paper is not the same as a finished payment.

Key Takeaways

- Federal aid could begin once damage exceeded state and local capacity.
- A single federal order grounded every commercial flight within hours.
- Congress capped airline pay using each carrier's share of industry flying.
- GAO's four channels moved 96 percent of all assistance designated to the area.
- A special tax zone in lower Manhattan targeted recovery to one district.
- Every dollar total in this lesson is a snapshot, not a finished payment.