



1-1-2012

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Recommended Citation

Kellyanne Conway, *The Microeconomic Effects of the Terrorist Attacks on September 11: Americans Helping Americans*, 16 NOTRE DAME J.L. ETHICS & PUB. POL'Y 101 (2002).

Available at: <http://scholarship.law.nd.edu/ndjlepp/vol16/iss1/6>

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THE MICROECONOMIC EFFECTS OF THE TERRORIST ATTACKS ON SEPTEMBER 11: AMERICANS HELPING AMERICANS

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There is not a person in our country who was not affected by the tragic events of September 11, 2001. What happened that day, after four commercial aircrafts were hijacked and crashed into the twin towers of the World Trade Center, the Pentagon, and a remote field in western Pennsylvania, is an event of mythic proportions that will forcibly assimilate itself into the culture. No one is unaffected. One need never to have visited Washington, D.C., New York City, or even boarded an aircraft, to have felt personally violated. It took the slaughter of innocent people, the evisceration of the national economy, and the realization that all is not secure on the home front to reconnect with basics like faith and freedom, and to *unify* and *marshal* the public.

A united and inspired America is no small feat. More than one year ago, the nation was deadlocked about a presidential contest “too close to call” that was not resolved some thirty-six days after Election Day.¹ For the third consecutive time, Americans elected a President with less than 50% of the popular vote.² Talk of the “digital divide” had offered a technological component to the charge that the haves and have-nots each were becoming larger, but farther apart. Consumption was easier to spot than compassion.

For years, our shoulders had been shrugged; at last, our eyebrows were collectively raised. In the weeks that followed came revelations of facts about the attacks, figures about the casualties, and friction in the economy; it seems that no person in the United States remains untouched. The collective reaction of shock and grief became a collective response of charity and

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1. Linda Greenhouse, *In Year of Florida Vote, Supreme Court Also Did Much Other Work*, N.Y. TIMES, July 2, 2001, at 12.

2. Al From, A “New Democrat” Agenda, SAN DIEGO UNION-TRIB., Aug. 26, 2001, at G-1.

volunteerism. Early signs suggest that the “hurry-up-and-grab” lifestyle has invited a bit more “slow-down-and give” to its repertoire. Suddenly, supporting the President, saluting the flag, and praising the Lord are in vogue.

Leaving the macroeconomic experts to their own debates, this paper focuses on the microeconomic effects of the terrorist attacks. What impact has the tragedy had on the families of those who lost loved ones, or on those feeling the aftereffects in layoffs? What effect does this have on kitchen table economics, and how will America remedy the problems? There are immediate needs that must be met, more important than the airline bailouts or economic stimulus packages. People need food, water, and clothing. The United States has shown how to handle the situation, by pledging and donating money to charities across the country; on a grand scale like in a small town, “taking care of their own.”

THE SITUATION

Due to massive closings and layoffs, unemployment figures have skyrocketed since the attacks. The New York Times reported that first-time jobless claims hit 450,000, rising by 58,000.³ As of mid-October, unemployment claims averaged 463,000, up from 455,000 at the end of September.⁴ These numbers increased as more and more companies announced layoffs; however, in early January, jobless claims fell 56,000, to 395,000.⁵ While the airlines have been the most prominent business affected by the attacks, they are not the only industry suffering. The aviation industry has cut more than 100,000 jobs, and the hotel industry is also reporting massive layoffs.⁶ The Hotel Employees and Restaurant Employees International Union reported that 41% of its members in Washington, D.C. and 34% of members in San Francisco have been laid off, with luxury hotels hit the hardest.⁷

These figures alone make a compelling case that our country is in need of a strategy to make sure people are economically

3. Bloomberg News, *Layoffs Push Jobless Claims to 9-Year High*, N.Y. TIMES, Sept. 28, 2001, at C4.

4. *Jobless Claims at 10-Year High*, WASH. POST, Oct. 12, 2001, at E02.

5. Neil Irwin, *Full Tables at D.C. Job Fair*, WASH. POST, Jan. 11, 2002, at E01.

6. Thomas A. Fogarty, *Reports Show Wobbly Labor Market*, USA TODAY, Sept. 28, 2001, at 6B.

7. Christina Binkley, *U.S. Hotels Struggle to Cope With Drop in Guests Since Attack*, WALL ST. J., Sept. 28, 2001, at A1; Hotel Employees and Restaurant Employees International Union, *September 11 and the Hospitality Industry*, at <http://www.hereunion.org/newsinfo/sept11points/> (last visited Jan. 15, 2002).

supported at this time. Yet, the numbers do not take into account those families whose loved ones were killed by the terrorists and those who are ineligible for one reason or another for unemployment benefits and other social safety net programs. One young woman who lost her husband in the World Trade Center had found out on her first wedding anniversary, two weeks before the attacks, that she was pregnant.⁸ In the month after September 11, she received \$450 dollars, hardly enough to cover her mortgage, car payments and other expenses.⁹ People need aid immediately. Landlords cannot wait for rent checks, and babies cannot wait for formula while the red tape is unwound and waded through. Heather Boushey, an economist for the Economic Policy Institute, says, "Obviously it is not enough for these people to support their families and make ends meet. It creates hardships for families for no fault of their own because of events that happened on September 11."¹⁰

Additionally, thousands of poor people have lost their access to public services, because major computer links were destroyed with the World Trade Towers.¹¹ While officials insist that everything is being done to make sure no one is left without services, many people report that they have not received their payments.¹² Without receiving their cash payments, food stamps, or health care, many people are flocking to soup kitchens and charities for assistance.¹³

Last but not least, the economy has been hit. Americans had been living in a state of prosperity for much of the past decade, but the past few months have been at the cusp of a recession. After an unprecedented closing of Wall Street, the stock market fell dramatically.¹⁴ On the first day of trading since the attacks, the Dow dropped 7.1%, or 685 points to 8,921, beating its record loss of 618 points on April 14, 2000.¹⁵ The Nasdaq fell 6.8%, to 1,579.55, which has not been seen since October 14,

8. Hannele Rubin, *Broke, Pregnant Widow Tangled Up in Red Tape*, N.Y. POST, Oct. 14, 2001, available at <http://www.nypost.com/seven/10142001/news/regionalnews/31738.htm> (on file with author).

9. *Id.*

10. Kirstin Downey Grimsley, *Unemployed Flock to National Airport*, WASH. POST, Sept. 26, 2001, at E01.

11. Nina Bernstein, *Destroyed Computer Links Leave Thousands of Poor People Without Welfare Benefits*, N.Y. TIMES, Sept. 28, 2001, at D3.

12. *Id.*

13. *Id.*

14. Adam Shell, *Shaken Stock Markets Plunge*, USA TODAY, Sept. 18, 2001, at 1A.

15. *Id.*

1998.¹⁶ Finally, the Standard & Poor's 500 declined 4.9%.¹⁷ While these are not good numbers, they are not the worst that the nation has seen. The 7.1% decline of the Dow is nowhere near the 22.6% drop in the 1987 crash, in fact, it was only the fourteenth largest percent decline.¹⁸ Since the fall, the market has been steadily regaining its numbers, although not enough to stop the recession.

Bulls are insisting that now is the time to buy, because the market will not drop any lower. They seem to be correct. After dropping significantly when first reopening after September 11, the Dow, the Nasdaq, and Standard & Poor's 500 all rose in the subsequent week. Nevertheless, bears warn that this may not be the end of declining stocks, and that it could take years for the market to rebound.¹⁹

There have been many times when our country has seen significant drops in our economic markets, but the effects are different this time. Previous market crashes had more of a residual or spiral effect on people and their finances. Crashes led to layoffs, pay cuts, and other corporate level responses to market declines, which, in turn hurt family finances. In the case today, people are feeling the effects directly. Almost six-in-ten Americans (58%) have investments in stocks or stock mutual funds.²⁰ Despite the drop, people are not panicking. Most remain quite levelheaded. The Gallup/UBS-Paine Webber Index of Investor Optimism reported that although the overall investment optimism dropped twenty-three points in September to its lowest point ever, those interviewed before and after September 11 reported the same scores.²¹ Three-quarters (75%) of stock investors report that the September 11 attacks will not make any dif-

16. Tom Walker, *Market Battered, But Intact*, ATLANTA J. & C., Sept. 18, 2001, at 1D.

17. Gary Strauss, *Stocks Slip More, But Airlines Recover*, USA TODAY, Sept. 19, 2001, at 4B.

18. Adam Shell, *Stocks Plunge as Markets Reopen*, USA TODAY (Sept. 18, 2001), available at <http://www.usatoday.com/money/markets/2001-09-18-wall-street.htm>.

19. Adam Shell & Matt Krantz, *Market Could be Bear in Disguise*, USA TODAY (Oct. 1, 2001), available at <http://www.usatoday.com/money/covers/2001-10-01-bcovmon.htm>.

20. CBS News poll conducted 8/28-8/31 surveying 850 adults nationwide, margin of error + 3%.

21. David W. Moore, *Investor Optimism Drops in September, Unrelated to Terrorist Attacks*, GALLUP NEWS SERVICE (Sept. 26, 2001), at <http://www.gallup.com/poll/releases/pr010926.asp> (on file with author).

ference in whether or not they choose to invest.²² While Americans are acutely aware of the negative impact of the attacks on the economy, most remain confident in the long-term prospects.²³

COPING WITH THE SITUATION: THE GOVERNMENT'S RESPONSE

All of this begets the question, "*How do we help this situation?*" The existing system of unemployment benefits is fraught with problems, and Social Security is entering its last days of solvency. This extraordinary time requires extraordinary measures. Some have been enacted while some are still being discussed.

There are a number of ways in which the government is and will be providing for those families who lost someone in the attacks. Depending on the length of time the victim worked, his/her spouse and/or children may be eligible for Social Security benefits.²⁴ A death certificate is not required to file a claim for victims' families in light of the recent events.²⁵ The Social Security administration will instead accept airline manifests, list of employees from employers, and statements that place workers at the attack site.²⁶ People may also be eligible for disability benefits if they suffered physical or mental trauma due to the attacks and cannot do "substantial" work for at least a year.²⁷

Death certificate issuance is being expedited in order to help family members who have lost someone in the attacks. This way family members can receive death benefits and collect on insurance claims quickly, rather than have to wait the required three or more years to receive a death certificate if no body is found.²⁸ New York amended a law last year that said that there must be a three-year wait to assume death without a body.²⁹ Now the court can "presume death in cases where a person was exposed to a specific peril and there's no reasonable explanation for his or her absence."³⁰ This amendment was a result of the

22. Dennis Jacobe, *Confidence in the Economy*, GALLUP NEWS SERVICE (Sept. 21, 2001), at <http://www.gallup.com/poll/releases/pr010914.asp> (on file with author).

23. Frank Newport & Dennis J. Jacobe, *Despite September 11 Attacks, Americans Optimistic About Economic Future*, GALLUP NEWS SERVICE (Sept. 25, 2001), at <http://www.gallup.com/poll/releases/pr010925.asp> (on file with author).

24. Ben White, *Attack Survivors Sought*, WASH. POST, Sept. 20, 2001, at A33.

25. *Id.*

26. *Id.*

27. *Id.*

28. Lynn Brenner, *Death Certificates May Clog Process*, NEWSDAY (NEW YORK, NY), Sept. 23, 2001, at F07.

29. *Id.*

30. *Id.*

TWA Flight 800 disaster, in which some family members could not legally establish the death of a loved one and receive a death certificate.³¹ However, some warn that just because the New York court accepts the death does not mean that insurers or other states will honor such assumptions.³²

For family members trying to collect benefits, they now only need paperwork establishing their relationship to the missing person and proof that the person was working in one of the buildings affected by the attacks.³³ In addition to developing a standard, uniform affidavit to claim death benefits, volunteer lawyers, city officials, and state judges are working to help families fill out the claims and move them through the system.³⁴

The largest measure to date has been the \$15 billion bailout of the airline industry, of which 53% of Americans approve of the measure.³⁵ Now others are asking—"where's my bailout?" Travel agents, the hotel and restaurant industries, the oil and gas industry, and even steel manufacturers want the government to help them.³⁶ But some argue that the airline industry was an exception to the rule, because it is a vital national industry that was devastated by a direct government order to shut down.³⁷ Unfortunately, many airlines may pocket the bailout money while continuing to lay off employees, refusing to honor their labor contract requirements for severance packages because a "war emergency" justifies withholding benefits.³⁸ Other commentators note that most airlines have a majority of employee stockholders. As stockholders *and* employees, the airline workers have a huge stake in their respective companies and benefit from the bailout as well. The bailout has protected their pensions, mutual funds, and investment accounts.³⁹

Other industries are also looking for bailouts from the government. Insurance companies had never considered terrorism when writing policies, and now every commercial property and

31. *Id.*

32. *Id.*

33. William Murphy, *America's Ordeal*, *NEWSDAY* (NEW YORK, NY), Oct. 3, 2001, at A39.

34. *Id.*

35. L.A. TIMES, survey conducted 11/10–13/01 of 1,995 adults, margin of error + 3% (on file with author).

36. Editorial, *Bailout requests multiply, but hasty action is unwise*, *USA TODAY* (Sept. 30, 2001), available at <http://www.usatoday.com/news/comment/2001-10-01-nceditf.htm>.

37. *Id.*

38. *Id.*

39. Daniel Gross, *A Bailout for Everyone*, *MSNBC* (Sept. 24, 2001), at <http://www.msnbc.com/news/633238>.

public works project may see their premiums rise in response.⁴⁰ Insurers will either raise premiums an exorbitant amount, or refuse to insure certain properties.⁴¹ The government has rejected a full bailout of the industry, instead opting for proposals to provide assistance only when certain monetary losses have been met.⁴²

Another federal program awards families of "first responders" (firefighters, police, or emergency medical workers) who were killed a lump sum payment of \$151,635.⁴³ A spouse of a fallen New York police officer or firefighter, but not paramedic, receives a tax-free, lifetime pension equal to the amount of the deceased's last year earnings, as well as health insurance.⁴⁴ On the other hand, families of kitchen workers at Windows on the World killed in the attacks receive \$15,000 from their life insurance policies and health insurance until November 2001.⁴⁵ Regardless of occupation, victims' families are eligible for support from the state's Crime Victims Board, of up to \$600 a week to a maximum of \$30,000 and funeral costs if no other resources are available.⁴⁶ In addition, the state Workers Compensation Board will provide a lifetime benefit to the spouse of a worker killed on the job of two-thirds the deceased workers salary, up to \$400 a week.⁴⁷ These benefits are shared with dependent children until they turn 18, or 23 if they are full time students.⁴⁸

Congress is debating numerous measures, including what amounts and types of aid should be granted to laid off employees, including health care, job training, expanding and expediting unemployment benefits, and increasing the minimum wage.⁴⁹ In an unprecedented legal move, Congress created the September 11th Victim Compensation Fund, which will pay the families of people who died in the September 11 attacks, along with the more than 7,000 injured.⁵⁰ Families will be paid for eco-

40. Michael Grunwald, *Terror's Damage: Calculating the Devastation*, WASH. POST, Oct. 28, 2001, at A12.

41. *Id.*

42. *Id.* See also Stephen Labaton, *A Nation Challenged: The Aid Bill*, N.Y. TIMES, Oct. 27, 2001, at B1.

43. Jim Dwyer & Diana B. Henriques, *A Nation Challenged: Death Benefits*, N.Y. TIMES, Sept. 20, 2001, at A1.

44. *Id.*

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.*

49. *Washington in Brief*, WASH. POST, Sept. 28, 2001, at A34.

50. David G. Savage, *Response to Terror; U.S. to Fully Compensate Victims' Kin*, L.A. TIMES, Oct. 5, 2001, at A1.

conomic losses as well as emotional pain and suffering.⁵¹ While these terms are similar to lawsuits, these payments will be determined within four months of filing a claim.⁵² Attorney General John Ashcroft appointed Kenneth R. Feinberg as "special master," who is serving without pay.⁵³ Feinberg did not need to be approved by the Senate, and his decisions cannot be appealed. As special master, he will decide on the amount of payouts to the families.⁵⁴ The fund does have some legal guidelines, which include that there is only one claim per victim, and families must decide among themselves how to divide the compensation.⁵⁵ Additionally, if family members do decide to collect from the federal compensation fund, they waive their right to go to court at a later date.⁵⁶

Families will receive an average of \$1.65 million from the fund, calculated by age, income, and number of dependents.⁵⁷ Families of those who died can receive an advance of \$50,000, and those severely injured by the attacks can be awarded a \$25,000 advance.⁵⁸ Monies received from all collateral sources will reduce any pay out, which include life insurance, pensions, death benefits, and any other government aid.⁵⁹ This upsets some that say they are being penalized for planning ahead and having life insurance.⁶⁰ Such regulations may cause individuals to bypass the government's compensation plan and instead take their case to court.⁶¹

It has not been clarified as to whether monies received through private charity funds would be subtracted from government compensation. This was not an aspect thought of when drafting the legislation, and will surely be an important point to clear up before checks begin to be written. Some of the most ardent supporters of this new program are trial lawyers. This may surprise some, since they will earn nothing because they are not taking these claims to court and thus not receiving a share of the payout. In fact, the national trial lawyers group has offered

51. *Id.*

52. *Id.*

53. *Id.*

54. *Id.*

55. *Id.*

56. David Barstow, *A Nation Challenged: Compensation; U.S. May Approve More Aid For Kin of Sept. 11 Dead*, N.Y. TIMES, March 5, 2002, at A1.

57. Lena H. Sun & Jacqueline L. Salmon, *U.S. Sets Formula to Pay*, WASH. POST, Dec. 21, 2001, at A01.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

to represent victims for free.⁶² However, many people are raising concerns over such funds. For one thing, the families of those killed in other attacks, such as Oklahoma City, the bombing of Pan Am Flight 103 over Scotland, 1998 bombings of American embassies in Africa, and the accidental bombing of the Chinese embassy in Serbia in 1999, are upset that they were not compensated to the same extent.⁶³

The government has been lauded for *asking* the public how they think the money should be allocated and regulations regarding the funds. While private charities have pushed the public away, the government is actively seeking their involvement, even setting up an e-mail address where people can send their comments and a website for viewing such comments. The Department of Justice also set up a webpage for "Frequently Asked Questions" to make navigating through the federal compensation program easier.⁶⁴

Another way the government is trying to respond to this situation is by boosting the economy. Stimulus packages worth up to \$99.5 billion have been proposed by many Congressional leaders and President Bush in order to encourage consumer confidence, enhance business investment, and to take care of displaced workers.⁶⁵ If such a package is approved, it would bring total stimulus amount approved by the government since the September 11 attacks to over \$125 billion, considered the minimum necessary to stimulate the economy to a swift, full economy.⁶⁶

Almost nine-in-ten Americans (89%) approve of extending unemployment benefits for people who lost their jobs either due to the attacks or because of layoffs that occurred in the aftermath of the attacks.⁶⁷ There is growing concern about the number of people who will be left without health insurance due to layoffs and the high price of healthcare. Some policy groups have suggested the following tactics to remedy the situation:⁶⁸

62. David G. Savage, *Response to Terror; U.S. to Fully Compensate Victims' Kin*, L.A. TIMES, Oct. 5, 2001.

63. Diana B. Henriques and David Barstow, *Fund for Victims' Families Already Proves Sore Point*, N.Y. TIMES, Oct. 1, 2001, at A1.

64. U.S. DEPARTMENT OF JUSTICE, *September 11th Victim Compensation Fund of 2001, Victim Compensation Fund Frequently Asked Questions*, at <http://www.usdoj.gov/victimcompensation/faq.html> (last visited March 28, 2002).

65. See Nick Anderson, *U.S. Strikes Back; Political Landscape*, L.A. TIMES, Oct. 14, 2001, at A8, available at 2001 WL 28920492.

66. *The Right Stimulus*, BOSTON GLOBE, Oct. 4, 2001, at A18.

67. L.A. TIMES, survey conducted 11/10-13/01 of 1,995 adults, margin of error + 3% (on file with author).

68. Greg Scandlen, *Helping Laid-Off Workers Keep Insurance* (Nat'l Center for Pol'y Analysis, Brief Analysis No. 373, 2001), at <http://www.ncpa.org/pub/>

- Extend medical savings accounts to everyone
- Allow rollovers of unspent health care flexible spending accounts (FSA)
- Allow affected workers and families to continue to make tax-free contributions to their FSA through the year of the plan year
- Provide refundable tax credit to displaced workers eligible for COBRA
- Extend refundable tax credits to unemployed workers who are ineligible for COBRA or who are not insured

Other measures Congress *has* approved include waiving the income tax liability for the year of death and the year preceding it. For those who did not earn enough to pay taxes, a minimum payment of \$10,000 will be granted to them.⁶⁹

The President also established the Office of Homeland Security, whose mission is to “develop and coordinate the implementation of a comprehensive national strategy to secure the United States from terrorist threats or attacks.”⁷⁰ As part of its mission, the Office will “coordinate federal plans and programs to provide medical, financial, and other assistance to victims of terrorist attacks and their families.”⁷¹

COPING WITH THE SITUATION: THE NON-GOVERNMENT RESPONSE

One of the most amazing things to come from these tragic events is the outpouring of Americans donating their own money, in most cases to help people that they have never met. President Bush, in his address to the Joint Session of Congress on September 20, 2001, said, “I ask you to continue to support the victims of this tragedy with your contributions.”⁷² He went on the list a website for a central source of information.

ba/ba373; Nina Owchatenko, *Providing Health Security for Displaced Workers* (Heritage Found., *The Heritage Foundation Backgrounder* No. 1407, 2001), at http://www.heritage.org/library/backgrounder/pdf/bg_1483.pdf.

69. Glenn Kessler & Helen Dewar, *Congress Ends Session, Buries Stimulus Bill*, WASH. POST, Dec. 21, 2001, at A1.

70. Exec. Order No. 13228, 66 Fed. Reg. 51812 (Oct. 8, 2001).

71. Summary of the President's Executive Order, at <http://www.whitehouse.gov/news/releases/2001/10/print/20011008.html>.

72. Address Before a Joint Session of the Congress on the United States Response to the Terrorist Attacks of September 11, 37 WEEKLY COMP. PRES. DOC. 1347 (Sept. 24, 2001) (recording President George W. Bush's speech given on Sept. 20, 2001), available at 2001 WL 14298014.

To date, over \$1.4 billion has been donated or pledged so far to local and national charities.⁷³ There are a number of questions regarding these private charity funds. For instance, how much money will be dispersed per individual and/or family, whether any money will go to support rescue efforts and rescuers working, how and if people indirectly affected will receive aid, and how to deal with “double dipping,” people who receive benefits from more than one source.

The New York Family Assistance Center on Pier 94 in New York offers victims and their families one-stop shopping for services. Emergency financial assistance, mental health counseling, childcare, health services, spiritual care, and hot meals are among the many things offered. Having a central location where everything can be taken care of comes as a relief to many, since they often feel that they are unable to wade through the red-tape charities have set up. One woman has compiled three binders of applications and forms and an eighteen-page spreadsheet to keep track of the charities she is trying to gain assistance from, other wives have even bought fax machines and set up home offices. As one woman said, “I was turned into a widow on September 11 and a single mother, and now they’re turning me into a beggar.”⁷⁴

Major controversy has erupted regarding the allocation of these funds. In a poll conducted by Fox News and Opinion Dynamics,⁷⁵ forty percent of the public was “very” concerned that September 11 charity funds may be misused. Additionally, thirty-three percent were “somewhat” concerned.⁷⁶ And there is growing concern of fraud. One woman tried to collect money saying her siblings had been killed in the Trade Center and she needed to care for their children. Another man stole the identity of a person who died in the WTC in order to obtain a credit card. Both persons are being indicted on charges. The Red Cross warned of fraudulent websites soliciting money on behalf of various organizations, asking donors to provide credit card details.

Some monies have been dispersed in the form of grants to organizations, which are then expected to help victims. However, not all donors are pleased that grants have been awarded to

73. Lena H. Sun & Jacqueline L. Salmon, *Sept 11 Funds Wrestle With What's Fair*, WASH. POST, Dec. 10, 2001, at A1.

74. David Barstow & Diana B. Henriques, *A National Challenged: The Charities*, N.Y. TIMES, Oct. 28, 2001, at A1.

75. Survey conducted 10/31–11/1 of 900 registered voters, margin of error +3%, available at <http://www.nationaljournal.com/members/polltrack/2001/todays/11/1105fox.htm> (on file with author).

76. *Id.*

groups such as the Legal Aid Society, which is helping defend individuals who have been detained by the U.S. government in connection with the terrorist attacks.⁷⁷

The Red Cross came under fire when it was discovered that half of the \$564 million that was raised for the Liberty Fund, designated for victims of the attacks, would be going to upgrade their telecommunications equipment and earmarked for future emergencies.⁷⁸ Furthermore, it was refusing to join a national database set up among all charities, as a way to streamline payments to families and ensure that no one was left out. While at first the organization balked at such a database, citing strict privacy standards, it was eventually “coerced” into joining after public outrage emerged at its handling of funds and the difficulty in receiving aid. This controversy also led to Red Cross President Bernadine Healy being forced to resign her position. The organization now plans to offer six months of basic living expenses to victims and their families, with another six months available to those who need additional assistance.⁷⁹ Additionally, the Red Cross appointed former Senate Majority Leader George Mitchell as the independent overseer of the Liberty Fund.⁸⁰ He will be accountable to the American public, *not* to the board.

Other controversy now surrounds the question of “who gets what?” One widow of a firefighter has received \$125,000, and expects much more. Another widow of an insurance executive has only received \$40,000, and is not sure more is coming. And a man who lost his business in the WTC has only received \$8,000, not enough to stop his family of nine from being evicted from their home in Staten Island.⁸¹ And many charitable organizations warn that people need to be aware of the long-term needs of victims, as learned by the Oklahoma City bombings.

Other remedies include negotiating wage cuts or shorter work weeks to avoid layoffs.⁸² Like Lee Iacocca lowering his salary to one dollar a year during the 1979 bailout of Chrysler, some

77. Marc Morano, *Criticism Mounts for Charity Fund Defending Possible Terror Suspects* (Nov. 9, 2001), at <http://www.cnsnews.com/Nation/Archive/200111/NAT20011109b.htm>.

78. Cheryl Wetzstein, *Red Cross Relief Efforts Under Fire; Panel Hears from Disappointed Widows*, WASH. TIMES, Nov. 7, 2001, at A1, available at 2001 WL 4166070.

79. Cheryl Wetzstein, *Red Cross “Correction” Redirects Reserve Funds*, WASH. TIMES, Nov. 15, 2001, at A1, available at 2001 WL 4166678.

80. Anne Marie Chaker, *Red Cross Appoints Mitchell to Oversee Fund for Sept. 11*, WALL ST. J., Dec. 28, 2001, at A10.

81. See Sun & Salmon, *supra* note 57.

82. See Theresa Agovino, *New York’s Tourism Industry Feeling Effects of Terrorist Attacks*, A.P., Sept. 20, 2002.

executives of major airlines are giving themselves pay cuts or forgoing their salaries for the rest of the year in an attempt to show that they are doing their part to help out their dwindling industry.⁸³

WILL IT WORK?

There is no question of the existence of the needs of people or the resources that are available to help them. However, the two are currently existing in parallel universes and need to be connected. The outpouring of support seen by Americans donating to charities will lead to such a connection.

The public and private response to the attacks demonstrate both the power of philanthropy to make a positive impact on the lives of those most in need and the potential for a massive revival of private charity as a vehicle for addressing social ills. Private philanthropy is faster, more elastic, and more humane than government actions. The problem with governmental responses to social problems is that they are inefficient, unjust, and have unintended consequences.

No one wants to return to a welfare state. In order to avoid such a position, people are giving their own money to private charities to administer to those in need. This return to grassroots solutions is a widespread phenomenon, appearing in such forms as the newly developed "Faith-Based & Community Initiatives" program. By working with grassroots and non-profit programs, the government can help to avoid a welfare state. However, programs such as "Faith-Based & Community Initiatives" do not come without their share of controversy and legal issues. These issues must be explored in order to show that such programs really are worthwhile and important to our country's recovery.

FAITH-BASED & COMMUNITY INITIATIVES

It is not a new idea for the government to work with religious groups in order to provide certain social services. Roman Catholic hospitals receive tax funding, parochial schools have been loaned secular books, and in a 1988 ruling in *Bowen v. Kendrick*⁸⁴ the United States Supreme Court found that the Adolescent Family Life Act (AFLA) was not unconstitutional, although it allowed religiously affiliated groups to receive government

83. Martha McNeil Hamilton & Frank Swoboda, *Labor Seeks Aid for Workers Laid Off in Wake of Attacks*, WASH. POST, Sept. 25, 2001, at E01.

84. 484 U.S. 589 (1988).

grants.⁸⁵ In *Mitchell v. Helms*,⁸⁶ the Supreme Court voted 6-3 that computers and other tax-subsidized instructional aid be allowed to go to religious elementary and secondary schools.⁸⁷ Previously, religious institutions would have to create separate secular entities in order to handle public money. Now they do not have to go through the trouble of forming separate groups. President Bush created the White House Office of Faith-Based and Community Initiatives and instructed five Cabinet departments to establish Centers for Faith-Based and Community Initiatives including Health and Human Services, Housing and Urban Development, Justice, Education, and Labor.⁸⁸

In creating the office, President Bush has three goals.⁸⁹ The first is to expand charitable giving, primarily through a charitable deduction which most Americans do not take advantage of through itemization. Secondly, to level the playing field for faith-based community organizations through the elimination of federal barriers in order to retain government neutrality, and finally to achieve results to help Americans in need.

One of the strongest facets of the Initiative is to encourage and expand charitable giving. There are a number of ways in which this will be accomplished. As previously stated, charitable deductions for non-itemizers will be granted. Along with this, corporations will be encouraged to donate equipment to organizations in good faith to avoid liability concerns, individuals age fifty-nine or older will be allowed to contribute IRA funds to charities without being taxed, states will be encouraged to provide a credit against state income or other taxes for individuals who donate to charities addressing poverty, corporations will be allowed to deduct charitable donations until the value exceeds fifteen percent of the company's taxable income, and a Compassion Capital Fund will be created, matching private giving with federal funds.⁹⁰

85. *Id.* at 593.

86. 530 U.S. 793 (2000).

87. *Id.* at 835-36.

88. Exec. Order No. 13198, 66 FR 8497 (Jan. 29, 2001), available at 2001 WL 75853 (establishing Centers for Faith-Based and Community Initiatives with the specified agencies); Exec. Order No. 13199, 66 FR 8499 (Jan. 29, 2001), available at 2001 WL 75854 (establishing the White House Office of Faith-Based and Community Initiatives).

89. The Brookings Institution, *White House Issues Report on Barriers to Faith-Based Organizations*, A Brookings Forum (Aug. 16, 2001), at <http://www.brook.edu/comm/transcripts/20010816.htm>.

90. President George W. Bush, *Foreword by President George W. Bush*, at <http://www.whitehouse.gov/news/reports/faithbased.html>.

There are a number of reasons why people are not supportive of this Faith-Based Initiative. One of the most cited issues is a possible constitutional violation of the separation between church and state. The Supreme Court itself has not handed down a clear decision. Justice David Souter states that the First Amendment means that the federal or state government cannot “set up a church . . . pass laws which aid one religion, aid all religions, or prefer one religion over another, . . . [or levy a] tax in any amount . . . to support religious activities or institutions.”⁹¹ However, Justice Clarence Thomas writes that “nothing in the Establishment Clause requires the exclusion of pervasively sectarian schools,”⁹² and that no Establishment Clause violation takes place “[i]f the religious, irreligious, and areligious are all alike eligible for government aid.”⁹³

Some other reasons people are not supportive of the Initiative include that federally funded employment discrimination is unfair, that religion may be forced on the needy, that there may be federal regulation of religion, and that religions will be competing against each other and some may be favored over others. Some religious leaders are wary of the Initiative as well. They are concerned that the government will begin to control their religious institutions.

As many proponents of the Initiative point out, in the past the government has not been neutral, as it should be, to faith-based and community organizations. The charitable choice provision in the Initiative does not allow public funds to be used for religious worship, education, or proselytizing. Additionally, federal programs have not focused enough on getting results. Finally, faith-based organizations have the right to take the religion of an applicant into consideration when hiring. Congress passed this protection in 1964; it was expanded in 1972 and upheld by the Supreme Court in 1987.⁹⁴

Congregations are an important group in the social service field. They are value-generating, value-maintaining, and they possess a wealth of information and human resources from their people. Religious institutions are the original social service providers, and with more congregations expanding their social services, they are hoping to be able to meet the needs of even more people.⁹⁵ As Robert Putnam points out in his book *Bowling*

91. Mitchell, 530 U.S. at 873 (Souter, J., dissenting).

92. *Id.* at 829 (plurality).

93. *Id.* at 809 (plurality).

94. See The Brookings Institution, *supra* note 89.

95. Gretchen M. Griener, *Charitable Choice and Welfare Reform: Collaboration between State and Local Governments and Faith-Based Organizations* (Welfare Info.

Alone,⁹⁶ half of all personal philanthropy is religious in nature, and half of all volunteering occurs in a religious context.⁹⁷ Americans support programs such as Faith-Based and Community Initiatives. A CBS/New York Times poll done in March found that sixty-six percent of Americans thought it was a good idea for the federal government to give money to religious groups in order to provide social services, while only thirty percent disagreed.⁹⁸ Even when people are asked directly about giving money to fundamentalist groups, support is still seen. In a Gallup poll taken last February, of those who supported the idea of faith-based initiatives, eighty-seven percent still approved with such a plan even if the money went to conservative Christian churches, sixty-two percent approved if the money went to Islamic organizations, and forty-seven percent would approve of giving money to Hare Krishnas, Nation of Islam and Scientologists.⁹⁹

When President Bush announced the idea of the Office of Faith-Based and Community Initiatives, there was quite a bit of opposition, especially in terms of the legal ramifications and the constitutionality of such an office. Now the issues surrounding the Initiative have been put aside as people realize the potential of the office. It does not jeopardize the bounds of separation of church and state, and will actually benefit the country.

CONCLUSION

The United States has become its own charity. The contributors and the beneficiaries are the same. Americans have become born-again with a reinvigorated faith in God, a reverence for the flag, and a love of their country. In the spirit of unity Americans from across political parties, ideological platforms, race, religion, region and class lines have come together to help out one another. We have been reduced to our common denominator—America—and we are committed to supporting our fellow countrymen. As President Bush stated during his

Network, Issue Notes Vol.4, No. 12, 2001), at <http://www.welfareinfo.org/issue/noticecharitablechoice.htm>.

96. See generally ROBERT D. PUTNAM, *BOWLING ALONE* (2000).

97. Julie L. Sulc, *Religion and Social Welfare Policy Strategy Paper* (Pew Charitable Trusts, March 2001), at <http://www.pewtrusts.com> (Faith-Based Initiatives, Strategies).

98. Available at <http://www.gallup.com/poll/releases/pre010731.asp> (on file with author).

99. Jeffrey M. Jones, *Public Favors Bush's Faith-Based Charities Initiative*, Gallup News Service (July 31, 2001), at <http://www.gallup.com/poll/releases/pr010731.asp> (on file with author).

October 11, 2001 news conference, "Our nation is united, we are strong, we're compassionate, neighbors care about neighbors."¹⁰⁰

This is not the first time that Americans have come to each other's aid. While none of us were alive to witness it, we know that in the Chicago fire of 1871 charities came forward, with the support of the people, to aid in the relief effort. With these types of support, Chicagoans were able to overcome their tragedy and rebuild their city.¹⁰¹

The American people come through when they are needed the most. The people in the United States will head the relief effort of September 11. This will be a model for the 21st century on how to take care of its citizens, without having to return to a government-supported welfare state.

100. President George W. Bush, "This Is a Time of Testing" (Oct. 11, 2001), in WASH. POST, Oct. 12, 2001, at A20, available at 2001 WL 29161123.

101. Daniel T. Oliver, *Helping the Needy: Lessons from the Chicago Fire*, Alternatives in Philanthropy (July 1999), at <http://www.capitalresearch.org/publications/alternatives/1999/july.htm> (last visited Feb. 27, 2002).

