**STATEMENT**

BEACON ECONOMICS

Committee Members,

San Mateo County's public agencies lost $155 million in investments in Lehman Brothers Holdings, Inc as a result of that institution's bankruptcy. These are today's losses. These were not securities in a pension fund or other long run investment. This money was being parked in Lehman in what were identified as highly-rated liquid securities until needed for their primary purpose—the near term funding of schools, local infrastructure projects including public transport and new prisons, and ongoing operations of the local economy.

In real terms, these financial losses mean the loss of 1,658 local jobs, approximately one half of one percent of the County's employment base. It will suffer an overall loss of $216 million in output within the local economy including $100 million in income for local workers and major delays in the completion of projects necessary for the growth of the economy. These losses are intensifying an already grim economic situation. Unemployment in the county has risen from under 4% to over 8% in the past year, with little sign of abatement.

San Mateo County is not alone in suffering such losses. Many local governments have been hit by financial losses due to investments at Lehman. Estimating the overall scope of the economic damage being generated as a result of the loss of public funds is beyond the scope of our report. However it is worth noting that Lehman had over $600 billion in total debt at the time of its bankruptcy. In other words the scope of these public losses are surely considerably larger that the $155 million being suffered by local agencies in San Mateo County.

The Federal Government in recent months has aggressively responded to the financial crisis by working to offset the problems through a variety of actions. These efforts include large financial infusions into the banking sector to keep our lending markets operational, expanding the money supply to keep interest rates low and embarking upon a variety of fiscal spending initiatives to expand aggregate demand, including tax cuts and rebates and direct spending on a variety of local projects.

In this last category a substantial amount of funding has been put aside to offset the problems that state and local governments have been suffering due to the precipitous decline in tax revenues. To allow state and local spending to shrink rapidly will only exacerbate the current economic situation and delay recovery that much further. One of the primary criticisms of this program is the time lag involved in these programs. The task of finding 'shovel ready' projects that meet certain criteria is challenging at the best of times. Yet here is one of the simplest solutions to this issue. These are not shovel ready projects—these are shovel stopped projects.

By backfilling the financial losses being suffered by local governments as a result of the Lehman Bankruptcy the Federal government can accomplish two important goals.

- An almost immediate fiscal impact on the economy by funding local public projects that were already underway, or almost underway when Lehman failed; and,
- Leveling the playing field to offset the critical policy decision to prevent the bankruptcies of Bear Stearns and Merrill Lynch (and therefore rescue their public investors) but not Lehman Brothers.

Thank you,

Christopher Thornberg