

SHOULD NEW JERSEY START BANKING ON A STATE BANK?

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Advocates say a public bank – an idea talked up by Murphy during his campaign – could create jobs, boost state earnings, and increase economic activity



A new **report** supports Gov. Phil Murphy's call for a New Jersey public bank, finding that it would create jobs, increase state earnings, and boost economic activity.

The report, from the William J. Hughes Center for Public Policy at Stockton University, does not go so far as to recommend the state create the bank. But author Deborah M. Figart, distinguished professor of economics at Stockton, said she sees no downsides to the idea.

"If the state of New Jersey could borrow money for lower interest rates and fund more infrastructure and economic development projects, why pass this up?" Figart said. "Studies cited in my report show that commercial lending is insufficient."

The public interest

A public, or state-owned, bank would be indirectly owned by the people and its mission would be to advance the public interest. The state would deposit its revenue in the bank, rather than with a private-sector commercial bank. The public bank would then invest government funds locally in projects that support economic development efforts and return revenue surpluses to the state.

"Therefore, public banks offer an institutional mechanism to address the crisis in the quality of public infrastructure as well as unfulfilled demand for credit by small businesses," the report states. "Concerns over economic development are the fuel for this national movement."

The Stockton report notes that New Jersey received a D+ grade on the American Society of Civil Engineers' **2017 infrastructure report card**. That grade means the state's overall infrastructure, including roads, dams, water, energy and mass transit, is "in poor condition by many measures," the ASCE's rating states. Fixing the infrastructure is going to take significant funding.

Figart estimates that every \$10 million in new credit or lending by a state bank would yield between \$15.9 million and \$20.8 million in gross state output, or the total economic activity in the production of new goods and services. That same \$10 million in lending would generate an additional \$3.8 million to \$5.2 million in state earnings and lead to the creation of between 60 and 93 new jobs.

"In analyzing the economic impact of a public bank, the question is: 'How much new output and new earnings are created for every dollar of new lending in an economy?'" Figart said. "Any new lending from the public bank would have a multiplier effect."

Murphy backs the bank

As he campaigned last year, Murphy called for the creation of an independent state bank to take the deposit of state funds and provide low-interest loans for New Jersey infrastructure, small businesses, housing, and community development projects and college students. He reaffirmed his

support for the concept last December, shortly before being sworn into office, when he announced his nomination of then-Assemblywoman Marlene Caride, a Bergen County Democrat, to head the state Department of Banking and Insurance. DOBI would also be charged with helping establish and monitor the bank.

Two state senators, Nia Gill and Richard Codey, both Essex County Democrats, have introduced legislation ([S-885](#)) to create the bank, set up a board of directors, spell out the activities that the bank could undertake both in investing funds and lending money, and establish auditing and oversight of the institution. That measure is awaiting a hearing by the Senate Commerce Committee.

Figart undertook a study on public banking as a result of Murphy's call for it. Through it, she look at the Bank of North Dakota, the only public bank currently functioning, as well as plans for other public banks for Vermont and Santa Fe, New Mexico.

In her report, Figart discusses the record of the Bank of North Dakota, which is almost a century old, finding it has been effective and could serve as a model for New Jersey.

Unaffected by financial crisis

"It is highly successful and was not affected by the 2008 financial crisis," Figart said of BND. "It has been returning surplus revenue to North Dakota for decades."

Figart recommends that Murphy appoint a team of independent expert consultants to conduct a feasibility study for the proposed bank and that the state treasurer and the DOBI commissioner draft a business plan for it.

Her report also offers about two dozen questions for lawmakers and state officials to consider as they explore the idea. Among the questions: Where are the state's deposits currently held; how will the bank be initially capitalized; and who would be required to deposit funds into the bank?

"Having answers to the questions would help a State Bank of New Jersey open efficiently," Figart said.

Political corruption possible?

One of the major criticisms leveled against Murphy's state bank proposal during the campaign was that it could become rife with political corruption, as bank officers would lend money at favorable rates to the family, friends and cronies and that such loans might never be paid off.

That can be avoided, Figart said. "The proposed legislation names a board whose members draw on banking and finance experience. The legislation calls for independent audits and other safety measures."

The idea of a public bank has proven popular. Since the Great Depression, more than 20 states have introduced bills to establish state-owned banks or at least to study their economic feasibility, according to the Stockton report. At least a dozen cities across the country are also looking into the concept. The nonprofit Public Banking Institute was founded at the beginning of this decade to advance the idea across the country.

Michael W. Klein, interim executive director of the Hughes Center, said the report is "perfectly timed" given Murphy's interest and the pending legislation and it "offers the governor and other elected officials key financial estimates and a blueprint for moving forward."

Figart said that should state officials and lawmakers find the public bank a workable idea for New Jersey, they need not wait for other states or cities to act and see how well their banks function.

"We already have examples of public agencies lending money, like NJ EDA (Economic Development Authority) and NJ HESAA (Higher Education Student Assistance Authority)," she said. "We, and other states, have plenty of experience."



