A State Bank of New Jersey would boost earnings and development

Deborah M. Figart *Guest Columnist*

Within hours following Gov. Phil Murphy's inauguration, state Sens. Nia Gill and Richard Codey, both D-Essex, introduced the "State Bank of New Jersey Act." Similar bills have been introduced in 12 other U.S. states in 2017 and earlier this year.

A public bank (or a state-owned bank) is a bank that is owned by a representative government. It is indirectly owned by the people and therefore operates under the mission of working toward the public interest. The state (or locality) deposits its revenue in its own financial institution rather than banking with a private-sector commercial bank. Public banks then invest government funds locally in projects that support economic development efforts and return revenue surpluses to the state.

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? Any new lending from the public bank would have a multiplier effect. Loans for economic development projects would in turn spur spending on goods and services with those directed loans. Further, income generated from new jobs would result in more household spending, with much of these expenditures on goods and services inside the state.

The New Jersey plan is modeled on feasibility studies completed for proposed public banks in the state of Vermont and the city of Santa Fe, New Mexico. I estimated the potential economic impact of the proposed New Jersey State Bank using economic development multipliers (Regional Input-Output Modeling System, or RIMS II, multipliers supplied by the U.S. Department of Commerce). The resultant report is "Exploring a Public Bank for New Jersey: Economic Impact and Implementation Issues," published by the William J. Hughes Center for Public Policy at Stockton University.

Potential gross

Estimates show that every $10 million in new credit or lending by the State Bank of New Jersey would yield:

- $15.8 million to $20.8 million in gross state output.
- $3.5 million to $5.2 million in state earnings.
- 60 to 93 new jobs.
- $8.9 million to $11.8 million in value added.

These estimated effects do not yet consider the direct effect of operating the state bank itself with its own spending, employees and contribution to state output.

Whether the new lending created is $10 million or $100 million or $1 billion depends on the amount of reserves the state bank has and chooses to lend. It is about leveraging the power of a lending dollar. New Jersey currently deposits its more than $1 billion in commercial banking institutions. With all or a portion deposited in and loaned by the State Bank of New Jersey, the monies would be invested in communities throughout the state. The state also could save money in lower interest costs; a state bank might charge only half of what commercial financial institutions charge for state bonds and loans.

Take infrastructure, for example. Murphy supported a state-owned bank in his gubernatorial campaign because it could offer the state an innovative strategy for funding infrastructure projects, as well as for nurturing other local economic development. Funding for infrastructure investments from the State Bank of New Jersey could be at near-zero interest rates. A good start on a list of unmet needs begins with the latest New Jersey Capital Improvement Plan.

Murphy can get a head start on implementing the mission of the State Bank of New Jersey by doing two things: 1) charging a team of independent experts to conduct a feasibility study for the bank, and 2) working with the state treasurer, the commissioner of banking and insurance, and independent experts on developing a draft business plan. This will help the bank board hit the ground running after signing a bill into law.

Deborah M. Figart is distinguished professor of economics at Stockton University.