Summary of *Exploring a Public Bank for New Jersey; Economic Impact and Implementation* by the Hughes Center for Public Policy, Deborah Figart, Distinguished Professor of Economics, Stockton University.

The fundamental assumption of the report is that access to capital is the driver of the economy which is necessary for the health, security, and well-being of all individuals and businesses. The mission of the proposed bank is “to promote small businesses, fair educational lending, housing, infrastructure improvements, community development, economic development, commerce, and industry in New Jersey. In this role, the bank shall act as a funding resource in partnership with other financial institutions, economic development groups, and guaranty agencies.” (P.5.)

Shortage of credit in some sectors, especially for infrastructure and community development, has led to the push for state banks. Private commercial banks are generally not interested in financing long term capital projects. According to the FDIC, small business lending has decreased partially as a result of the consolidation of banking assets into fewer and fewer firms. Their emphasis on short term profits has resulted in high interest rates, but state banks can lend at lower rates, and return some portion of the the money made to the state budget to enable more spending. Commercial banks average 24% profit (*Investopedia*, Sept. 2018) which goes to things like bonuses, top management salaries and shareholder payments—none of which would apply to state banks. Because the state bank does not lend to individuals, it will not compete with commercial banks for this business.

Dr. Figart discusses the operations of the Bank of North Dakota and the beginnings of the State bank of Vermont as possible models, (pp.10-14) but since I am not sure how they parallel Washington’s proposal, I have not summarized this material.

Dr. Figart estimates that every $10 million in new lending by the State Bank would roughly double credit/money available for new infrastructure and community development projects through the increase in new production, jobs, earnings, and value added increases. (Multiplier analysis using RIMS II tables from the Bureau of /Economic Analysis)

Put another way, a local development initiative, such as a road, generates spin-off spending in other businesses: the initial spending leads to additional spending by businesses and individuals and new employment, and repeats this cycle. The technical terms: direct effect=the initial money spent; the indirect effect=spending for goods and services and new employees by suppliers; induced effect=employees spend their new income on goods and services, mostly in state, as opposed to commercial banks, much of whose spending would be more likely be out-of-state.

New Jersey’s average cash balances are over $1 billion, 90% of which is deposited with Wells Fargo. Assume a bond is issued for this amount. The interest rate at Wells Fargo would be about 4%, meaning that interest payments would be about $454.4 million. Because a state bank does not have a high paid executive, bonuses, commissions, branch offices, or private shareholders it could charge 2% ( N.D. Bank rate in 1915) meaning $214.1 million in interest,
and when the loan is repaid, this profit would be cycled back into the state accounts for more lending, with none going to shareholders in other states.

Dr. Figart mentions no downsides for a state bank, and dismisses the talk of risks, noting at one point the disastrous risks taken by large banks in 2008 which had to be covered by taxpayers. Nothing like this has happened to the Bank of North Dakota either in 2008 or in the 1930s. Dr. Figart points out that feasibility studies should be conducted by experts in the field of banking that are independent from partisan and big business influence.

At the end of the report, she lists 23 questions which should be answered by a feasibility study or by discussions between various agencies.

It is interesting to note that the new governor of New Jersey, Phil Murphy, a former Goldman-Sachs executive, campaigned on a platform of establishing a state bank.

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