# What the Philadelphia Bank Could Do: Estimated Economic Impact

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**Issue: How Can City Policy Jump Start our Local Economy.**

As we all know, Philadelphia’s poverty rate is the highest among the country’s 10 largest cities. All efforts to resolve the problem have failed to move the needle in any meaningful way.

**Need: More good paying jobs.**

Although the challenge of poverty goes beyond the job market, increasing employment would obviously contribute much toward the solution of this over-arching problem for our City.

**Solution: Create A Philadelphia Public Bank to Create Thousands of New Jobs**

Pragmatically, public banks are an alternative revenue stream for community development projects in a context where increasing taxes is challenging. A public bank can yield positive local economic development effects through its operations and lending.

# I quantify the impact using various assumptions. First, the city treasurer deposits/apportions the general revenue fund in the public bank according to three alternative scenarios: 25%, 50%, and 75%. This could be viewed as mild, moderate, and aggressive moves away from private banks, or could be viewed as a stepwise plan, e.g. move 25% to the new public bank in the first year, another 25% in year #2, and top up to 75% of deposits by year #3. Second, the required reserve ratio is 10%, similar to large U.S. banks, meaning that 90% of deposits are available to lend.

The economic development impacts are shown in Table 1. Aggregated output is estimated to increase by $1.70 billion to $5.09 billion. Earnings would rise by $161 million (if 25% were deposited) or by $482 million (if 75% were deposited). Employment would grow by as much as 10,755 jobs (if 75% were deposited). Finally, value-added, or Gross State Product, would increase by $1 to $3 billion. These are lower bound estimates because only city general revenue funds are in play, not additional public authority deposits such as SEPTA, the School District, and large non-profits. Further, these estimates do not yet include the ripple effects of the economic value of the infrastructure spending enabled by the lending or the City of Philadelphia’s savings on compound interest from borrowing at low rates of interest from the public bank.

# *Table 1.* City of Philadelphia Municipal Bank: Estimated Economic Impact

%Deposited $Deposited $Loans (90%) Output Earnings Jobs Value-Added

25% $1.26B $1.13B $1.70B $160.77M 3,585 $1.00B

50% $2.51B $2.26B $3.40B $321.50M 7,170 $2.01B

75% $3.79B $3.40B $5.09B $482.32M 10,755 $3.01B

Note: The City of Philadelphia budget in FY2020 is $5.025 billion.

Source: Estimates are based on U.S. Department of Commerce, Bureau of Economic Analysis Type II multipliers in RIMS II from Deborah M. Figart, “Restoring the Social Balance: The Potential Impact of a Public Infrastructure Bank,” forthcoming in the *Journal of Economic Issues*.