

The Political History of and Prospects for Reauthorizing New Markets

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Introduction

The federal New Markets Tax Credit is generating \$15 billion in private investment for struggling communities through 2007. It was the centerpiece of a broader community development bill in 2000 that Republican Congressman (now Senator) Jim Talent (R-MO) called “the most important anti-poverty program in decades,” representing “a true bipartisan consensus” (*Congressional Record*, p. H6821).

Achieving bipartisan support was no mean feat in these highly partisan times. But New Markets’ appeal is actually more than bipartisan; it has managed to span the ideological and policy differences within both parties. Within the Republican Party, New Markets appealed to both “opportunity society” and business-oriented members, and to both rural and urban representatives. Among Democrats, both traditional liberals and more centrist “New Democrats” supported New Markets. Its popularity across the political spectrum bodes well for the future of the program.

Authority for New Markets, however, will expire after the funding competition that is expected to open in the summer of 2006 and end with awards in winter or spring of 2007. That means Congress will have to extend authority for New Markets in 2006 to avoid interrupting the program. Many issues, including possibly far-reaching income tax reform, are potential political killers for the still young New Markets. This article explores the politics surrounding New Markets: how this federal anti-poverty program could appeal so broadly, who supported it and why, and prospects for legislative renewal.

The New Markets Idea

To get a better sense of where this tax incentive is going, it might help to look at where it came from. The origins of the New Market Tax Credit are in the 1990s, when the extraordinary success of the Low Income Housing Tax Credit prompted policy makers and advocates to consider how that model could be applied to other community development activities.

The political environment became receptive to the New Markets concepts in the late 1990s. Because of the historic economic prosperity, leaders from across the political spectrum wanted to bring the power of capitalism to bear on the pockets of poverty that were left behind during the decade’s unprecedented economic growth. For example, Reverend Jesse Jackson was working on his Wall Street Project, an effort to open access to capital and corporate governance

to minorities and low-income people. Meanwhile, conservative “opportunity society” leaders like former HUD Secretary Jack Kemp – the 1996 Republican Vice-Presidential candidate – and Republican Congressmen J.C. Watts and Jim Talent wanted to broaden the conservative movement by applying its principles to inner cities and rural areas. These two strands were mindful, and sometimes even supportive, of each other. Kemp, for instance, was fond of quoting Jackson to the effect that “capitalism without capital is just another ‘ism.’”

Kemp and Jackson were making not just an economic argument, but also a moral one. For the United States to accept communities of chronic poverty and economic isolation at the moment of its greatest prosperity seemed to mock the American promise of universal opportunity. Kemp was especially sensitive to how the international community, and especially budding democracies in the former Soviet Union and elsewhere, saw the United States. American capitalism would have to prove it could work for all Americans to become more acceptable in the often frightening new era of globalization.

Further knitting together diverse ideological strands, you had Jackson, the liberal, teaming up with President Bill Clinton, the centrist. Clinton embarked on several trips to poor urban and rural areas in 1999 and 2000 to promote the idea that the federal government could stimulate investment in areas that had been left out of the economic boom. In a 1999 interview, Jackson asked Clinton why he thought the idea was so popular with liberals and conservatives. Clinton answered, “It’s not charity. It’s a hand up and not a hand out.” The plan openly embraced capitalism: “We’re not asking anybody to do anything that isn’t a good business decision” (Jackson interview 1999).

In a second dynamic, targeting these pockets seemed to be a viable way to keep the already hot economy growing without sparking inflation and higher interest rates. The rationale here was that tapping underutilized productive capacity in inner cities and economically distressed rural areas would simultaneously bring new workers into the labor market and expand domestic consumer demand. “I would argue the only way to keep the growth going without inflation is to find both new businesses and new employees and new customers at the same time,” Clinton said (Clinton 2000).

This idea was reinforced by the research of the highly regarded Harvard Business School Professor Michael Porter. He argued that well-conceived businesses could thrive in economically isolated areas if they utilized the proximity to business customers, workforce, and consumers that traditional business analysts overlooked, a phenomenon Porter called the “competitive advantage of the inner city” (Cowan 1994). A 1999 HUD report picked up the theme with respect to retailing: “the higher population density in most inner-cities more than balances out the higher income in the spread-out suburban areas.” The report also concluded that low-income consumers spent \$331 billion outside their neighborhoods in 1998 because there were too few shopping options locally (HUD 1999, p. vi).

Of course, underdeveloped pockets of poverty were not simply an inner city problem. New Markets would also target rural areas that lagged in growth. For example, L. Ray Moncrief, an executive with the nonprofit Kentucky Highlands Investment Corporation, said he needed the New Markets initiative because “Wall Street venture capital is not coming to central Kentucky” (Babington 1999b, p. A2).

As diverse perspectives converged on the need and opportunity for a government intervention, a consensus also emerged about how to structure the policy. Any new economic development strategy would involve the private sector and local government. To make these partnerships work, conservatives and liberals had embraced the importance of community accountability, decentralized decision-making, and tax incentives. Conservatives and liberals could see tax incentives and public-private partnerships as anti-bureaucratic and market-driven approaches that gave more power to local communities and investors.

A revitalization approach rooted in public-private partnerships might not have been so feasible a decade or so ago, according to a Brookings Institution report on nonprofit community development corporations (CDCs) prepared by Carol Steinbach. “But today, the presence of a strong and capable network of thousands of community development corporations in low and moderate income areas—and allied intermediary organizations that support them—helps ensure the [low income housing] tax credits will be used well and attract maximum leverage” (Steinbach 1998, p. 23). The growth of CDCs had been phenomenal. By the mid-1970s, there were only about 200 CDCs operating nationwide (National Congress for Community Economic Development 1989, p. 3). By 1997, an estimated 3,600 CDCs had completed affordable housing projects (National Congress for Community Economic Development 1999, p. 3).

Economic development policies for poor communities had been tried before, and only achieved mixed results. But several specific policy precedents seemed to make the case that a New Markets initiative would have more success.

First, there was the long-standing success of the Overseas Private Investment Corporation (OPIC), a federal agency that “helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, complements the private sector in managing the risks associated with foreign direct investment, and supports U.S. foreign policy.” OPIC facilitated \$164 billion worth of investments through its insurance and loan programs and created more than 732,000 host-country jobs (OPIC Website). Gene Sperling, an economic advisor to Clinton and architect of New Markets said, “Our thought was, ‘why not do an economic mission to the United States?’” The idea behind New Markets was “to challenge corporate business America [and] community leaders to look in these places for new potential, for new profits, for new opportunity” (Babington 1999a, p. A2).

Second, the same basic tax credit approach that New Markets would use had worked stunningly well over the previous decade for producing low-income rental housing – another ambitious objective where federal policies generally had a bad reputation. When this Low Income Housing Tax Credit was enacted as a little publicized section of the Tax Reform Act of 1986, it seemed strangely out of sync with the broader tax reform trend to cut targeted incentives out of the tax code. It also defied conventional housing policy. Many in the industry scoffed at the idea that a tax credit could attract corporate investors on a large scale, especially since they could only claim and keep the tax credits if the housing were built on time, on budget, and successfully operated without traditional federal rent or mortgage guarantees. Yet the Housing Credit outperformed the hopes of even its most optimistic boosters,

virtually without failure, and the investment market responded by accepting lower and lower rates of return, year after unprecedented year. New Markets would later adopt many of the Housing Credit's signature features – limited bureaucratic interference, decentralized decision-making, private investment, market discipline, a competitive selection process to address clear public policy priorities, and pay for performance.

Third, the Housing Credit showed that it could create new opportunities in some of America's most isolated and persistently poor communities. These tangible and sustained improvements built the confidence of and attracted other businesses to areas that had only known disinvestment for years. An important legacy from this work was more than just the buildings it built; it was the highly sophisticated system of private investors, nonprofit and profit-motivated developers, and state and local governments, who had the experience and relationships that would be essential to a successful economic development effort. In other words, a new network of community developers, those who built housing in this case, demonstrated that they could rebuild some of the nation's most derelict areas, such as the Bronx in New York, or the South of Market district in San Francisco.

Finally, the Community Development Corporation (CDC) Tax Credit, a pilot demonstration enacted in 1993, also set an important precedent for using tax credits for economic development. The CDC Tax Credit showed real promise, generating nearly \$20 million in private financing for 20 nonprofit CDCs selected by HUD through a competitive process. The CDCs used the funds for financing small businesses and commercial real estate, in addition to working capital. Most of the investment induced by the tax credits came from banks, which were motivated in part by receiving Community Reinvestment Act credit (Steinbach 1998, p. 3). Local Initiatives Support Corporation, a national nonprofit community development leader that had helped to create the Low Income Housing Tax Credit and mobilize corporate investors, helped guide the CDC Tax Credit, too. Steinbach's Brookings Institution report drew many comparisons between the demonstration CDC Tax Credit and the well established Housing Credit, which "spawned the development of a healthy professional infrastructure of private and nonprofit developers, attorney[s], accountants, appraisers and marketers." The CDC Tax Credit did not have the chance to develop a similar network because it was "small and a pilot," but "it presumably could do so if expanded. It might even capitalize on the infrastructure already created to support the housing tax credit," according to Steinbach (Steinbach 1998, p. 19).

The Idea Becomes Law

The Washington policy machine generates literally hundreds of proposals for new federal programs annually, but Congress enacts only a small fraction of them. A major reason New Markets defied the odds was that low-income community economic development had caught the attention of the two most influential political leaders of the time: President Clinton and the Republican Speaker of the House, Dennis Hastert (R-IL).

Clinton used his 1999 State of the Union speech to elevate the issue to national stature. "I ask Congress to give businesses the same incentives to invest in America's new markets

that they now have to invest in foreign markets,” Clinton said, referring to OPIC. “This is not a Democratic or a Republican issue. It is an American issue.” The Speaker was sitting directly behind the President, and Clinton turned to shake Hastert’s hand, in recognition of Republican efforts and a tacit offer to work together.

The President further promoted the issue on a high-profile series of visits to poor urban and rural communities across the country, revisiting some of the same places Robert Kennedy had gone to promote the War on Poverty more than three decades before. Clinton’s last trip ended in Chicago, where Speaker Hastert joined him and both men pledged to enact economic development legislation within a year.

There may have been a lot of good will, but there were still many compromises in Congress before legislation could be passed. The initial Clinton package proposed three components: New Markets Tax Credits to generate equity investments; a Small Business Administration guarantee and grant program to foster venture capital investments in very small firms; and a long-term debt financing mechanism for the American Private Investment Companies (or APIC, an echo of OPIC). House Republicans initially proposed tax incentives for private investment in designated Renewal Communities, a version of enterprise zones, as well as faith-based drug and alcohol rehabilitation programs. The final legislative package included some elements from each side, and added other popular provisions too, such as the expansion of Low Income Housing Tax Credits and private activity bonds for housing and other purposes.

In the ensuing Congressional debates, what became apparent was that this formula did more than unite a Democratic President with a Republican House Speaker; it synthesized various schools of thought within the two parties. While Congress is often seen as hopelessly divided on partisan and ideological grounds, it is remarkable that Republicans and Democrats struck so many of the same chords on New Markets and Community Renewal.

Jim Talent (R-MO), then a leading House Republican sponsor and now a Senator, explained that “this bill is designed to increase the tools, the prestige, the visibility of redevelopment groups, of neighborhood intermediaries who are rebuilding the infrastructure of life in poor urban and rural communities around America. We know the Federal Government cannot get people out of poverty by itself,” Talent said. “We also know that individuals cannot just pull themselves up by the bootstraps.” Talent was explicit that this approach “set aside ideological baggage” (*Congressional Record*, pp. H6821-H6822).

Clinton had been stressing similar themes on his poverty tour. Clinton explained the idea behind this so-called “Third Way” strategy: “What we’re doing basically is using the government to facilitate a public-private partnership at the grass-roots level. It’s not government alone, it’s not private sector alone, but it’s a partnership, and I think it will genuinely change the landscape” (Seib 1999, p. A24).

Another leading sponsor was J.C. Watts (R-OK), chairman of the House Republican Conference. Watts said ignoring “struggling neighborhoods where vacant properties become home to crack users who destroy the sense of safety and security” was a “great moral peril.” Congress needed to act because “there are the neighborhoods where venture capital does not venture.” Watts also believed that the overall legislation represented creative problem

solving, the best ideas to confront the real and continuing problems of poverty. “This legislation establishes a model that merges new ideas about venture capital, regulatory reform, drug and alcohol rehabilitation, housing and home ownership, environmental clean-up, commercial revitalization and tax incentives” (*Congressional Record*, p. H6824).

Many struggling rural areas also stood to benefit. Representative Robin Hayes (R-NC) from rural North Carolina made this clear when he said, “Washington is finally waking up to the fact that success on Wall Street does not automatically translate into success on Main Street” (*Congressional Record*, p. H6828).

Other Republicans cited additional attributes. Representative Joe Pitts (R-PA), for example, praised local control. “The genius of this legislation is that it replaces faceless bureaucracies with the power of neighborly compassion,” he said. “This bill says to leaders in distressed communities, ‘You go on and do what you do best. We know you’ll do a better job than we can’” (*Congressional Record*, p. H6826).

A senior Republican on the tax-writing Ways and Means Committee, Phil Crane (R-IL) asserted: “This bill applies Republican principles of economic growth and opportunity to those communities that have not fully participated in the strong economic growth experienced by much of our nation in the last several years” (*Congressional Record*, p. H6839).

Democrats were also supportive for diverse reasons. Charles Rangel (D-NY), the senior Democrat on the Ways and Means Committee, made the bedrock case for adding jobs and income. With this approach, “people that now have such limited incomes will have more income to buy the things so America can continue manufacturing,” he said (*Congressional Record*, p. H6822). Rangel compared this program to the recent efforts to boost demand for American goods through expanded trade. “We hear a lot of talk when trade bills come to the House floor about how important it is going to be for us to expand our markets, how important exports are going to be, how important it is to get people to increase demand,” he said. But why not do this at home? “So if we are concerned about creating markets, why can we not go to the poor communities that we have to start talking about the same full employment that we have on the national average to make certain that every block, every road, every village, every community knows what the concept of full employment can be” (*Congressional Record*, p. H6822).

Danny Davis (D-IL), former chair of the Black Caucus, drew connections among faith, hope, and economic development: “I remember the passage of scripture in the Bible that says, ‘And they rebuilt the walls because the people had a mind to work.’ This legislation would not only work for renewal communities, but it would work for all of America; and I urge that we vote its passage.” Not only because it would renew communities, Davis stressed, but because it would renew “people’s minds” (*Congressional Record*, p. H6826).

Outside groups also put their weight behind the bill. Articulate community development advocates such as the Community Development Tax Credit Coalition (now the New Markets Tax Credit Coalition), a group that represented more than 4,000 CDCs and Community Development Financial Institutions, lobbied in favor of New Markets. Ronald Phillips, President of Coastal Enterprises, Inc. of Maine, spoke for this coalition: “The New Markets Tax

Credit will build off of the proven success of the Low Income Housing Tax Credit and the CDC Tax Credit to leverage private investment funds for underserved communities. The network of community development entities already exists. This new tool would enable [them] to expand significantly their ability to attract private capital for economic development activities in these communities” (U.S. House Ways and Means Committee 2000).

Adding more Housing Credits and tax-exempt bonds to the bill helped attract state and local government support, through the U.S. Conference of Mayors and the National Council of State Housing Agencies. And the private sector weighed in too, with the National Association of Home Builders and National Association of Affordable Housing Lenders voicing support.

As popular as this bill was, some aspects raised important doubts. Representative Maxine Waters (D-CA) was among those who objected to the inclusion of faith-based groups as eligible to receive government grants for drug and alcohol rehabilitation. “I have serious concerns regarding the use of Federal dollars for the funding of religious-based institutions which may use the funds in a discriminatory manner.” She added, “this is discrimination creep” (*Congressional Record*, p. H6827). And the late Senator Paul Wellstone (D-MN) criticized the bill as insufficient to fight poverty: “We have to be careful that we’re not doing symbolic politics, or photo-op politics” (Babington 1999a, p. A2).

With apparently overwhelming momentum, the New Markets legislation sailed through the House with broad bipartisan support, 394 to 27, and a comfortable majority in the Senate. But then, as the 2000 elections approached, New Markets was caught up in the larger, more partisan battle over the federal budget, and progress ground to a halt. When George W. Bush defeated Clinton’s Vice President Al Gore for President and Republicans seized firm control of the Senate, many observers expected the Republicans to push pending budget decisions into the new administration and Congress in 2001. But Congress reconvened after the election for an unusual lame-duck session and hammered out a budget deal with the outgoing Clinton administration. The Community Renewal/New Markets package that established the New Markets Tax Credit was one of the last pieces of the last bill to fall into place, just in time for Christmas.

Implementing The Law: The Bush Administration Takes Charge

Of course, enacting legislation is just the first step in establishing any new policy. Implementing New Markets would be the responsibility not of the Clinton administration that had championed it, but of an incoming Bush administration with no affiliation with it. Moreover, three separate agencies within the Treasury Department would have to coordinate to launch New Markets – no small challenge even for an enthusiastic Department. The CDFI Fund would be the direct program administrator, but both the Office of Tax Policy and the IRS Chief Counsel’s office would have to write and administer the tax rules. Would the Bush administration extend itself to make this all happen?

One early factor was Congressional support. At his 2001 confirmation hearing in the Senate Finance Committee, Treasury Secretary-nominee Paul O’Neill faced an inquiry from

Senator Jay Rockefeller (D-WV), New Markets' leading Senate supporter: "I want to know that you will make this program, already law, Mr. O'Neill, a priority during your administration." O'Neill responded that he would implement New Markets "without fail" (Senate Finance Committee Hearing 2001).

Some New Markets advocates worried when President Bush proposed cutting the funding for other programs that the CDFI Fund administered. But the administration seemed to regard New Markets more positively. The first CDFI Fund director to oversee New Markets, Tony Brown, often framed the program as an extension of the Bush administration's goals. In a 2002 report to Congress, Brown touted the work of the CDFI Fund for launching the NMTC program within one year of the original legislation passing (Brown March 14, 2002).

In those first critical years, it was still unclear how the program would fare. After all, there could be no guarantee that New Markets would work. And the economic boom of the 1990s, which had spawned such urgent optimism for spreading the wealth to low-income communities, had given way to a recession by 2001. If investment was slowing in middle-class areas, could New Markets attract capital to historically disinvested areas? Brown, in a 2002 address to the Community Development Venture Capital Alliance, was understandably cautious: "If the program is embraced by investors, it will be a significant source of new, patient capital that will help to stimulate new industries and entrepreneurs, to diversify the local economy, and to generate new jobs in low-income communities." He went on to say that "President Bush has made the nation's economic recovery a top priority." And "while the stimulus package is debated in Congress, we have a head-start and a new tool in the community development finance field" (Brown March 5, 2002).

The administration delivered on its New Markets promise. All three Treasury offices worked diligently so that both tax rules and administrative procedures meshed, while balancing sometimes awkward statutory wording with the practical needs of investors and communities. Treasury made a serious effort to learn how community development actually worked on the ground, what assurances nervous pioneer investors would need to move forward, and how to fulfill its stewardship responsibilities to Congress without stifling creativity. The process was not without glitches, and sometimes proposed regulations needed to be revised. But the consultative process was mutually respectful and essential issues were resolved reasonably. The Treasury Department does not run many programs – indeed, it lacked many program administration systems when the CDFI Fund was established in 1994 – but it implemented New Markets effectively.

Brown continued to promote the program on behalf of the Bush administration. "Why does this administration continue to focus on community development issues?" he asked early in the 2004 election year. "The answer is easy. The President and members of Congress are serious about promoting economic prosperity and stability for all Americans and in all communities, and they understand that gaps in financial service and credit availability must be addressed. The Treasury Department recognizes the unique role of community development finance and we support it" (Brown February 5, 2004).

More skeptical observers might have noted that New Markets was politically convenient during a so-called jobless recovery and amid widespread concern about the "outsourcing of

jobs” in the evolving global economy. Bush’s support demonstrated that his administration was doing something about employment. It was common to hear representatives of the Bush administration praise New Markets as a job creation program.

But if this was political rhetoric, it continued well after the President’s re-election last year. “One of the president’s top priorities is to have a growing economy that creates lots of good jobs,” said Treasury Secretary John Snow in March 2005. “The desire to encourage business investment and job creation in areas of need is the idea behind the NMTC program” (Snow 2005). And the President himself praised New Markets in a speech to a group of African-American entrepreneurs in July 2005: “I believe the federal government can play a positive role in helping African Americans achieve the goal of owning their own business.” To that end, Bush said the federal government “provided \$8 billion in new markets tax credits to boost investment and community development in low-income areas” (Bush 2005).

Will Congress Renew New Markets?

Although Congress authorized New Markets through 2007, the deadline for proposals for that final year’s credits is expected in September 2006. That means Congress would probably have to extend authority for New Markets by the end of 2006 or early 2007 in order to continue the pattern of annual competitions without interruption.

New Markets would appear to be well positioned for reauthorization. It appeals to a broad ideological range. The Bush administration has implemented New Markets responsibly and effectively. Most important, the program is successfully drawing private capital into low-income communities, although some practitioners would like to see it attract a wider range of business financing to a wider range of communities. In practical political terms, as more communities benefit, more members of Congress are likely to take notice. Consider the following press releases from members of Congress after the CDFI Fund announced a round of New Markets allocations in May 2004:

- Senator Talent [R-MO] Announces \$52 Million Tax Credit Authority for Urban Renewal in St. Louis;
- Representative John Conyers [D-MO] Announces \$27 Million for Wayne County In New Market Tax Credit Funds;
- Senator Norm Coleman [R-MN] Announces \$185 million for Minnesota in New Markets Tax Credit Allocation;
- Representative Elijah Cummings [D-MD], a strong supporter of economic growth in Maryland, announced that four Maryland businesses will receive a total of \$345 million in federal tax credit allocations through the New Markets Tax Credit Program.¹

¹ <http://www.talent.senate.gov/News/singleNews.cfm?NewsID=713> (last visited September 16, 2005); http://www.house.gov/apps/list/press/mi14_conyers/108_5_05_04_TC.html (last visited September 16, 2005); [coleman.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=383&Month=5&Year=2004](http://www.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=383&Month=5&Year=2004) (last visited September 16, 2005).; <http://www.house.gov/cummings/press/04may05a.htm> (last visited September 16, 2005).

But Congressional renewal of New Markets in 2006 is by no means assured. First, a five-year extension at its current \$3.5 billion annual volume of investment authority, with inflation adjustments, would cost the Treasury a projected \$5.4 billion over ten years, the normal time frame in which tax proposals are analyzed (Joint Committee on Taxation 2005). Unlike spending programs, which for budget purposes are assumed to continue indefinitely, tax incentives are assumed to expire as scheduled. Under this zero-based budget rule, extending a tax incentive like New Markets requires additional “tax expenditures.” In the five years since New Markets was enacted in 2000, the federal budget outlook has deteriorated from substantial surplus to substantial deficit. Five billion dollars may not be huge in the context of other tax proposals, but it is not insignificant either. Moreover, the queue for tax incentives is already long. Numerous industries are pushing for targeted tax incentives, making tax policy one of the most competitive arenas in Congress.

Second, New Markets has not been before the Congress since it was enacted in 2000. Some members paid it scant attention then. Other members had not yet been elected at that time. And New Markets itself is still relatively new. Bringing Congress up to date will take considerable time and effort.

Finally, the President’s advisory panel on tax reform recently recommended major changes to the tax code that assume the repeal of most tax preferences. New Markets would presumably be among those discontinued. The panel proposed simplifying the tax code, repealing the alternative minimum tax (AMT), and cutting taxes on savings and investments. To offset the tax cuts, the panel recommended killing or scaling back highly popular deductions for home mortgage interest, state and local taxes, employer health care expenses, and charitable donations. While the panel did leave open the slight possibility of retaining a few preferences, it would set a very high standard for them. At this point the President himself has not endorsed any proposal, but if Congress does tackle tax reform in 2006, New Markets and many other tax incentives will face an uphill climb.

That said, the effort to renew New Markets is off to an early bipartisan start. In the House, Reps. Ron Lewis (R-KY) and Charles Rangel (D-NY) have introduced a bill to extend New Markets for five years. In the Senate, Olympia Snowe (R-ME) and Jay Rockefeller (D-WV) have done likewise. All four are members of the tax writing committees, House Ways and Means and Senate Finance, respectively.

From here, the next step will be to build the list of Congressional sponsors to demonstrate broad support. The New Markets Tax Credit Coalition is already working towards this goal. The great demand for allocation of New Markets investment authority – annual proposals to the CDFI Fund typically are eight to ten times the available volume – should bolster the case in several respects. First, the market response has been very favorable. Second, the applicant pool is a potentially energetic and broad constituency. And third, the CDFI Fund has used the competitive process to move applicants to deliver more public benefits than the statute requires.

In addition to the simple bills to extend New Markets, practitioners and policy makers are beginning to discuss possible substantive changes to the underlying statute. These discussions and legislative efforts are likely to proceed on a separate but parallel track to the extension effort. The two tracks would presumably merge at some point in the process.

As a practical matter, any extension of New Markets is likely to be part of broader tax legislation in 2006, but it is too early to anticipate whether such legislation is likely or what its other components might be. An important aspect of the successful effort to enact New Markets in 2000 was its place at the center of a broader, high profile legislative package. Though not necessary to extending New Markets in 2006, a similar, broader effort could improve the chances for success.

To keep abreast of the upcoming political developments in the NMTC renewal fight, be sure to check the websites for the NMTC Coalition (www.newmarketstaxcreditcoalition.org) and the Local Initiatives Support Corporation (www.lisc.org).

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