Into the Economic Mainstream

A Discussion Paper
on
Bipartisan Policies for
Inclusive Economic Growth

by

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Preface and Acknowledgements

This discussion paper is part of a project undertaken by Opportunity Finance Network and CFED to develop bipartisan economic development policies.

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Opportunity Finance Network

The Opportunity Finance Network, comprised of 167 financial institutions, finds and finances opportunities that others overlook. Its members are community development financial institutions (CDFIs) and other opportunity finance institutions that work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets.

Through fiscal year-end 2004, Opportunity Finance Network has loaned and invested $9.6 billion to create economic opportunities for women-owned, minority-owned, and other small businesses, quality, affordable housing, and essential community facilities and services. That financing has generated or maintained 141,000 jobs and 28,900 businesses, 317,000 housing units, and 4,700 community facility projects in urban and rural neighborhoods in all 50 states.

CFED

CFED is a nonprofit organization that expands economic opportunity. Established in 1979 as the Corporation for Enterprise Development, CFED works to ensure that every person can participate in, contribute to, and benefit from the economy by bringing together community practice, public policy, and private markets. CFED identifies promising ideas; tests and refines them in communities to find out what works; crafts policies and products to help good ideas reach scale; and fosters new markets to achieve greater economic impact.

Executive Summary

While public discussion about economic development policy seems stuck in an unproductive conflict between supply-side and demand-side economics, private discussions reveal that increasing numbers of practitioners and policymakers sense important convergences of goals and approaches, creating new opportunities. It turns out, for example, that the ownership society and asset-based development, empowerment and devolution, strengthening markets and carefully crafting roles for government lead to many of the same places. The background frameworks and ideas offered here are meant to foster exploration of potential common ground on policy for economic development.

Frameworks

Rather than begin with debates about particular programs, the project first sought to step back to underlying frameworks, examining the goals behind the programs, the economic thinking, and the conceptions of the role of government. Across the political spectrum, groups seem to share the following broad propositions.

1. **In the long run, we can best achieve economic development[1] through economic growth.**
   - Economic growth primarily occurs through increasing the productivity of individuals, businesses, and institutions.
   - Economic growth can also occur through increasing inclusiveness of underutilized people, assets, and places. This kind of "inclusionary growth" aligns growth and development goals particularly well, especially when it arises from addressing market inefficiencies to include "market-ready" assets.[2]
   - Asset development is often necessary to enable underutilized assets to be productively included in the economy. Evidence suggests that investing in asset development also provides net gains for overall economic growth. In addition, there is broad agreement that asset development is a constructive way of meeting other public welfare objectives because it moves particularly distressed assets into the economy rather than creating alternative support systems where they are less productive.

   To move people "into the economic mainstream," we can move the stream by growing it overall through increasing productivity; we can move or grow the stream in targeted places through inclusionary growth strategies; or we can move the people to the stream by getting assets ready to participate in the economy.

2. **If economic growth through increasing productivity, inclusiveness, and asset development is our common goal, we are also converging towards a common means: markets.**
   - Markets are the mechanism for wealth creation in our economy and determine which people, assets, and places get included.
   - Market operations are influenced by the market environment and by internal production, consumption, and exchange functions. Growing or "moving" markets entails changing the conditions of production, exchange, or consumption in ways that allow market activity to include new people, assets, or places.

[1] Economic development is used here to refer to improving the economic circumstances of the lower-income population in particular.

[2] The phrase "market-ready assets," discussed throughout, broadly refers to assets whose failure to be deployed in the relevant marketplace reflects primarily market imperfections or failures rather than the inadequacy of the asset.

To cause inclusionary economic growth, we need to enhance market operations. This entails careful targeting of particular market functions to correct imperfections and expand operations.

3. **Focusing on government policy, these frameworks allow recasting our core question: What is the proper role and best means for government to enhance market operations towards inclusive economic growth?**

   It is useful to distinguish four government roles with respect to markets as vehicles for economic development:

   1. Enabling markets by providing infrastructure (e.g., property rights);
   2. Improving markets by addressing imperfections (e.g., regulation of pollution externalities, irrational discrimination);
   3. Using markets to better achieve public purpose objectives than the government by itself can achieve (e.g., New Markets Tax Credit, Community Reinvestment Act in part); and
   4. Getting assets ready for market (e.g., education and training, brownfields clean up).

   We are looking for government policies that enable, improve, and use market operations, making them more inclusive in ways that increase overall economic growth, as well as policies that develop assets for markets.

Design Principles

These frameworks suggest a number of principles for crafting policy.

- Customize policy based on analysis of particular market operations, imperfections, and opportunities;
- Use markets wisely—avoid supplanting or distorting them;
- Expand individual choice and responsibility;
- Create partnerships relying on the private and civic sectors where possible; and
- Support local activity and comprehensive approaches.

Further Exploration

These general principles reflect broad consensus and provide a common framework for jointly exploring new approaches to policy, particularly for analyzing specific markets to develop targeted *inclusionary growth* policies. At the same time, they reveal areas where further investigation might be particularly fruitful.

Consider some interesting propositions that deserve further exploration:

- The effectiveness of markets reflects that individual choice provides powerful incentives and self-regulating mechanisms. This implies that more programming should put resources and decision-making power directly in the hands of individuals (e.g., vouchers for everything from education and training to health care). This approach is being applied in areas where market imperfections are more likely and potentially devastating.[3] *Can we jointly find ways to allow the best features of individually driven market mechanisms to perform in these spheres while designing the necessary protections against market failure?*

[3] Areas like education and medical care are more often characterized by uneven expertise and access to information, making pure market operations less efficient and more problematic. Richard Nelson, Ed., *The Limits of Market Organization* (New York: Russell Sage Foundation, 2005), at pp. 15, 161 et al, 213 et al.

- We need to understand more about *inclusionary growth*. At one end of the spectrum, failure to include *market-ready* assets reflects market inefficiencies and provides clear opportunities for economic growth perfectly aligned with development objectives (e.g., development lending). At the other end of the spectrum, many potential assets require a great deal of subsidized development before contributing to economic growth. Without careful analysis of particular assets and markets, current programming, including subsidies to both businesses and individuals, often results in simple redistribution of wealth instead of increased efficiency and productivity towards genuine economic growth. *How do we design programs to assure growth, not just redistribution, and to maximize alignment of asset development with economic growth?* Similarly, the relationship of inclusiveness and productivity bears much deeper analysis: *How do we invest in productivity that also maximizes inclusiveness, and vice versa?*
- To increase productivity, supply-side advocates have generally supported tax cuts for businesses and individuals to boost investment, while demand-side advocates have broadly supported increased employment, targeted investments, and more generous welfare benefits as steps toward increasing investment. If greater productivity is the goal, perhaps we should target programming directly to the elements and activities that increase productivity—such as technology, research and development, and human capital—particularly to the extent that market imperfections result in under investment in these areas because business cannot capture all of their positive externalities. *What are the best ways for government to support investment that will directly enhance productivity—tax credits, direct funding, new intermediaries, increased property rights in the innovations, or other programs?*
- Many believe that freedom is about more than individualism and choice; it also entails responsibility and capacity (i.e., if you cannot read, it does not help to be "free" to buy books). Freedom and development are intimately linked, and are ultimately about expanding the capacity and collective opportunities of individuals to lead the lives they choose. *Should government policy enhance markets in ways that align individual incentives with responsibility and capacity building, and if so, how?*

Policy Ideas

A large number of promising ideas surfaced during interviews, the Forum discussion, and research. A few examples follow.

- **Conservative think tank leaders and liberal development practitioners both discussed, in effect, "universal capitalism:" creating accessible, unified, and portable accounts that combine in various degrees IRAs, Individual Development Accounts (IDAs), pensions, child and education accounts, and other programs to promote savings and ownership.** There is particular interest in finding the 21st century equivalent of the 19th century Homestead Act—a program that dramatically expanded asset ownership. Ideas tended to focus on capital assets and business equity, ranging from targeted tax incentives to expanded stock market investment.
- **There is interest in exploring programs to align business growth with labor force development, urban development, and individual asset creation.** This entails carefully designing subsidies justified by their associated positive externalities to assure alignment occurs. Programs such as the New Markets Tax Credit (NMTC) fall into this category. Several participants indicated a desire to better target the NMTC towards more investment in business development. Related suggestions to bring people back into the labor market included offering incentives to businesses that hire lower-income people and reducing payroll taxes for certain employees or businesses.
- **Participants from across the political spectrum suggested that the Mortgage Interest Income Tax Deduction might be, at best, out of date and needs restructuring or elimination.** The deduction distorts the market in ways that increase the

costs of housing, tends to subsidize higher-income people to buy more housing, and is much less valuable to those in lower tax brackets. Participants suggested a more targeted home ownership tax credit as a possible replacement. At the same time, many participants noted that changing the deduction is not politically feasible and alienates key constituencies for many of the other ideas.

- **In some circumstances, new types of institutions acting as specialized market developers or intermediaries—such as Community Development Financial Institutions (CDFIs)—are a more efficient way to use markets or get assets market ready.** Even more boldly, the convergence of business and market approaches with development goals implies that our fundamental corporate legal structure, a market enabling function of government, is out of date. We have for-profit corporations that are discouraged from public benefit activity (e.g., required to maximize shareholder value). We have nonprofit corporations discouraged from being fully business-like (e.g., unable to have conventional equity investors and distribute profits). Perhaps it is time for a new corporate form—for-profit, public purpose corporations, with tax benefits proportionate to the public purpose outputs and ancillary protections to avoid unfair competition, corruption, and similar issues.

Moving Forward

The interview process and Forum offered promise for developing new, bipartisan strategies and programs. This paper captures highlights from the discussion, and will be circulated among key constituencies and considered at several upcoming organizational meetings. We hope that a number of next steps—ranging from completing the framework to developing and pursuing specific bipartisan policies—will emerge from these discussions. Ultimately, we hope that our common interests can be translated into common action towards inclusive prosperity.

Introduction

While public rhetoric on economic development policy often seems caught in a somewhat rigid and unproductive conflict between supply-side and demand-side economics, increasing numbers of practitioners, scholars, and policymakers are sensing important convergences of interests and practical ideas—and opportunity for new, bipartisan policies. Upon closer examination, for example, there is a great deal in common between the "Ownership Society" advocated by the Right, and the "asset-based development" approach of the Left.[4] The Left's emphasis on individual and community empowerment and the Right's goals of individual freedom and devolution similarly offer areas of common ground. As the Left's appreciation of the power of markets has grown, so has the Right's understanding and use of government to enable and shape markets.

Broad changes in the global economy also demand re-examination of old economic assumptions and offer new possibilities. As the fundamental dynamics of the economy change, it is possible that the economic principles governing growth have changed as well. Growing the economy for all may depend on investing in both productivity and inclusiveness, an agenda that offers a great deal of common ground across the political spectrum.

> *We're at a point where Left and Right are converging… it's great that you are doing this. I've been trying to do this, but I can't bring together thinkers on these issues as the conservatives complain and the liberals won't talk to me.*
>
> Republican Policy Leader

The purpose of this project is to foster exploration of potential common ground on policy for economic development. We began by interviewing dozens of leaders from across the political spectrum, and reviewing related literature and legislation. A group of interviewees and others from diverse political backgrounds then convened for a one-day "Into the Economic Mainstream" policy forum. (See Appendix A.) The subjects of the interviews and Forum were broad ranging because we hope to move forward by first stepping back. We suspect that beneath the current positionings, there may be areas of similar understandings and objectives. To explore this, we went back to frameworks. Rather than starting with discussions of particular programs, we were interested in the goals underlying the programs, and the related thinking about how the economy worked and the role of government.

While the exploration was broad, there are a few areas of particular focus. First, our organizational goals are not secret: Opportunity Finance Network and CFED care about alleviating poverty, increasing assets for low-income people and places, and reducing economic isolation. Given these economic development goals, this paper emphasizes *economic* frameworks, including particularly market principles, and the role of asset development. Second, this discussion is focused on new *policy* ideas, and the role of government. Given these priorities, the core questions concern the proper role and best means for government to enhance markets to be more productive and inclusive.

This paper is just one next step in a process of collective exploration. It organizes the main observations from the interviews, literature review, and Forum. It suggests possible unifying themes and raises questions. Many good ideas are not included here because they do not fit into a bipartisan framework—our search is for common ground. Most importantly, this is a *discussion* paper. The point is not to be comprehensive, but to help us think "outside the box," share and provoke new ideas, and generate a productive dialogue. We hope this process leads to big new ideas and new bipartisan partnerships to promote them. We have a common stake in a prosperous future for all Americans.

Frameworks: Into the Economic Mainstream

Economic development discussions from all sides often start with programs and advocacy, skipping over the economics. If one goal is to reframe efforts to address problems of lower-income people and places in terms of economic policy, we need to start with the economics, to understand what it means to be in

[4] This paper somewhat casually characterizes certain positions or participants as "Left" or "Right," "Liberal" or "Conservative." The labels of course do not do justice to the many nuances and alternative positions; our focus here, however, is on common ground.

the "mainstream," why some people and places are left out, and how varied polices can make the mainstream more inclusive—indeed, why this is even a good idea.

What do we mean by "into the economic mainstream?" Two initial frameworks, one concerning the goals (or ends) and another concerning the means, emerged as useful backdrops. First, growing the economy through expanding productivity and efficiency, in part through inclusion and asset development, offers a framework for common goals. Second, expanding market activity and using market mechanisms offers a common framework for how to get there.

In effect, it is possible to move people and other assets into the economic mainstream either by changing the stream, or by moving the assets. The stream changes in two ways: it can get bigger, when we grow the economy overall; or it can expand in targeted places, when we "move" markets. Having an economic and market framework also sheds light on how best to move assets to the stream, and why this too serves economic growth.

Ends: Inclusionary Economic Growth

Economics is not a zero sum game: when one person gets richer, it does not mean another must get poorer. Bill Gate's wealth did not occur primarily at our expense, but reflects value creation and increased productivity across the economy. If millions of poor people, whether in India, the Lower Mississippi Delta, or the distressed inner city areas of our country, become more productive and enter the middle class, net economic growth occurs. Rather than competing or taking away wealth from somewhere else, this expansion of the economy results in growing markets and production of new goods and services. Of course, specific instances of economic growth can cause severe dislocation for particular people and communities in the form of job losses, plant closings, and so forth. This is not a reason to oppose productivity growth, but rather a reason to design programs to help the displaced people to redeploy productively into the economy. Ultimately, economic growth creates a bigger pie with broad benefits.[5] *One fundamental goal of economic development must be to grow the economy—to create the most productive, efficient, high-growth economy possible.*

Two fundamental ways to grow the economy repeatedly surfaced in the interviews and offer a great deal of common ground: (1) growth through increasing productivity, and (2) growth through inclusion of underutilized assets.

Growth through Increasing Productivity

Economic growth through increased productivity creates new business activity, higher paying jobs, lower prices, and new wealth. What causes productivity growth? Ultimately, innovation including particularly new technology increases productivity. What, in turn, increases innovation is less clear though the subject is getting a great deal of attention. Clearly, investment is important—in research and development, technological infrastructure, knowledge institutions and networks, and human capital. Human capital deserves particular attention, as it is the knowledge and skills embedded in the labor force that combine with new technologies to enable growth. Just as investment that increases company productivity can "trickle down," investment that increases human productivity can "bubble up." *Increasing the productivity of individuals and institutions (including government) might provide one common goal* across the political spectrum.[6]

Although its principles are newer and less widely agreed upon, there is also increasing interest in "New Growth Theory."[7] Broadly, in the "New Economy," knowledge embedded in technologies, human capital, and institutions has become an increasingly critical input to production alongside capital, labor, and natural resources, fundamentally changing the dynamics of economic productivity growth, in part

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[5] Robert Atkinson, *The Past and Future of America's Economy* (Cheltenham, UK: Edward Elgar, 2004), p. 263; Charles Wheelan, *Naked Economics: Undressing the Dismal Science* (New York: W.W. Norton & Co., 2002), p. 77.

[6] See, Roger Altman, Jason Bordoff, Peter Orszag, and Robert Tubin, "The Hamilton Project: An Economic Strategy to Advance Opportunity, Prosperity and Growth" (Washington, DC: Brookings Institution, 2006).

[7] See, Joseph Cortright, "New Growth Theory, Technology and Learning" (Washington, DC: U.S. Economic Development Administration, 2001).

because knowledge often is not subject to diminishing returns. This provides additional reasons for investing in productivity growth through innovation, creates more and different opportunities for productivity growth, and suggests targeting investment towards knowledge generation and deployment in the economy. It is truer than ever, for example, that an individual's most important economic asset is his or her human capital. New Growth economics has both some supply-side characteristics (increasing productivity and production), and demand-side characteristics (focusing on inputs, processes, and particular forms of government investment), and bears further exploration for common ground.[8]

Growth through Inclusion of Underutilized Assets

Focusing on economic growth has another advantage: it leads to an interest in *inclusion*. The economy can grow either through using its current resources more efficiently, or by increasing the resources input into the economy. Currently, we have wasted assets and economic opportunities: underemployed labor, underdeveloped land, and underserved markets. These often reflect market imperfections or other inefficiencies. What we will call "inclusionary growth" can occur through incorporating these assets into the economy.

> *Conservatives support the New Markets Tax Credit, upgrading skills, and redeploying brownfield sites in urban areas because these are otherwise wasted resources.*
>
> Conservative Policy Leader

As we focus on growth through inclusion of underutilized assets, it is helpful to distinguish between people (human capital assets) and places or communities (real property, physical capital assets, and perhaps business market opportunities). Growing the economy through expanding inclusiveness with respect to people means increasing their participation in economic activity and enhancing their productivity. This entails education and skills development. It also includes increasing the efficiency of labor markets so that a qualified labor force is not left unemployed through economic inefficiencies such as market bias or higher finding, measurement, and other transaction costs in lower-income communities, as well as enhancing the processes for supporting entrepreneurship. Human capital is particularly important–and productive–in our knowledge intensive economy; and expanding its deployment and productivity contribute to overall growth, particularly where knowledge has increasing returns.[9] Generally, a skilled workforce contributes to the tax base, reduces social and economic costs of poverty, and otherwise contributes to national prosperity.[10]

One indication of an inclusiveness strategy's value with respect to human assets is research examining the relationship of income variation to economic growth. In the past, metropolitan areas with greater income disparity tended to have higher growth, but in the current economy, income and wage disparity prove bad for growth. Wages and incomes overall grew more in metropolitan areas with the least disparity.[11]

A growing body of research suggests that reincorporating distressed central cities and communities of concentrated poverty into the economy is not just good for the communities, but good for business overall. Regional economies seem to work better when they have less disparity between communities.[12] Inclusionary policies with respect to place seem to increase regional economic efficiencies, leverage economic market linkages and co-dependencies, and avoid the costs to the overall economy of dealing with the fallout from concentrated poverty. Considering changing demographics and other factors, participants and others noted that emerging urban markets would increasingly be a leading driver of the

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[8] Robert Atkinson recently offered compelling analysis that different economics emerge and are appropriate for different stages of economies in our history, and that neither Keynesian nor supply-side economics are well suited to the New Economy; See, Atkinson, Supra at 5, chapters 8 & 9. His new book, *Supply Side Follies* (forthcoming), provides more detailed analysis and policy ideas, particularly for productivity driven growth in the New Economy.

[9] See, Altman, Supra at 6, p. 12.

[10] Maureen Conway and Kirsten Moy, "Family Economics: Work and Wealth in the New Economy" (Washington, DC: Aspen Institute, 2005).

[11] Robert Weissbourd and Christopher Berry, "The Changing Dynamics of Urban America" (Chicago: CEOs for Cities, 2004), pp. 56, 60, www.ceosforcities.org/rethink/research/.

[12] See, Manuel Pastor, Jr. et al, *Regions that Work* (Minneapolis: University of Minnesota Press, 2000).

U.S. economy. This, too, suggests the extent to which economic policies that integrate these communities into the mainstream reflect a convergence of development and overall growth objectives.

Inclusionary growth also causes increased efficiency, but in the sense of more efficient deployment into the economy of "dormant" assets rather than more efficient use of already deployed assets. It allows the economy to benefit from the underutilized potential of people for innovation, of land for development, of small businesses for growth, etc. Inclusionary growth also reduces other costs associated with wasting these assets, such as unnecessary sprawl or crime associated with unemployment. By recognizing that economic growth can occur, not just through productivity growth, but also through *inclusionary growth*, we are observing a further convergence of the overall growth objectives with the objectives of targeted development for lower-income people and places. Note that increased inclusion can, but does not necessarily, lead to increased productivity. While the notion of *inclusionary growth* offers a very promising direction of inquiry (especially for common ground), it requires much further exploration, particularly with respect to the economics affecting why exclusion occurs in specific situations and how and when inclusion is aligned with growth rather than redistribution.

As several participants emphasized, a great deal of evidence is accumulating that shows recapturing these assets into the economy is good for business. The experiences of companies reinvesting in emerging urban markets, of developers focusing on recapturing real estate in and near the downtowns of older cities, of Community Development Financial Institutions (CDFIs) profitably lending to local real estate rehabbers, small business entrepreneurs, and others, all confirm that there are economic growth opportunities on the margins of the economy. We seek inclusive growth not because it is fair, or meets public welfare objectives, or is the moral thing to do (though all of these reasons may be true); we seek it because it causes overall economic growth.

There's an important limitation to this "growth through inclusiveness" discussion concerning the nature of the "assets." So far, we are primarily addressing deployment of "market-ready" assets rather than developing assets to get them market ready. Market ready refers to situations where the assets lay dormant, largely because market imperfections have prevented their deployment. This is the case, for example, where a developer does not look at land that offers a perfectly sound business opportunity because it is in an unknown community the developer mistakenly thinks is unsuitable. Whether or not an asset is deployed in the economy is a function of both the qualities of the asset and the marketplace (particularly the market mechanisms and functions discussed in the next section). This makes the concept of *market ready* somewhat of a moving target, heavily dependent on analysis of particular circumstances. This is particularly true with respect to perhaps the most important assets—people—as the knowledge economy may demand different and higher skills for them to be *market ready*. For present purposes, the key point is that for assets that are market ready, inclusionary growth offers all benefits and no costs. In this sense, *into the economic mainstream* is about making the economy work better by including more market-ready people and places.

Individual Asset Development

Many people and places, however, are not market ready. These include the hardest to employ, brownfields, largely abandoned neighborhoods, people who because of one-time catastrophes, victimization, or other circumstances cannot make ends meet, and others who are unable to participate due to varied combinations of personal, cultural, or broader economic failures.

> *In some places and for some people, we need to create a market culture that is currently missing.*
>
> CDFI Leader

From an economic perspective, why help these people and places? Though the situation is more complex, basically moving these people and places into the economic mainstream is good for overall economic growth. Arguments around addressing social issues such as poverty, inequality, and segregation are often based on ethical or ideological grounds. Even when economic arguments are made, they are often based on a supposed tradeoff between equity and efficiency; the assumption is that moving people to the mainstream will require redistributive policies, and these arguably reduce efficiency or hinder economic growth. It should be noted that many government economic growth policies have intentionally and unintentionally strong distributive effects, favoring for example whites, homeowners, suburbanites, and so forth.[13] As a result, an independent set of arguments for asset development is based on the importance of redressing the effects of past, often discriminatory, distribution rather than being newly redistributive.

Regardless of the relationship between redistributive policies and economic growth, our point for present purposes is that *inclusiveness* and *growth* are not incompatible and, in fact, can be effectively aligned. At least in urban economic development (and our economy is overwhelmingly centered in metropolitan areas), it appears that there is no necessary tradeoff between equity and growth, but rather the two tend to go together. Overall, regional economies with more inequality grow slower. Taking steps to move more people and places into the economy—even those requiring some specialized help—makes good economic sense.

This rationale strongly reinforces the focus on activities that will develop the economic potential of people and places, moving them towards becoming productive assets in the economy wherever possible. Rather than policies that transfer wealth without leading to economic growth, this approach means focusing on asset development and markets as discussed below. Not coincidentally, the economic development field has made great strides in the last decade in understanding the importance of asset development and ways to achieve it.

As a result, we have expanded homeownership markets, created new savings products such as Individual Development Accounts, and developed incentives like the Earned Income Tax Credit. We have more targeted programs, particularly with respect to labor force assets, that try to maximize this convergence of asset development and economic growth goals, such as business-led job training programs or regional affordable housing programs to alleviate the jobs/housing mismatch. These programs are indeed contributing to economic growth. For example, for many entrepreneurs and small businesses, initial financing is from personal assets, using loans secured by their houses. Increasing homeownership, as a result, has enabled expanded business activity. These approaches bring more people into the mainstream economy as innovators, producers, and consumers.

While individual asset development is an independent development goal, it relates closely to economic growth—it both contributes to and is a by-product of growth. In this sense, asset development is both an ends and a means. There was broad consensus among participants on the importance of increasing savings, in particular, as the U.S. savings rate for the first time since the Great Depression has become negative, and our tax system arguably encourages borrowing more than saving. More broadly, asset development leads to economic security that enables people to survive financial shocks, take entrepreneurial risks, and invest in enhancing their productivity.[14]

Other Considerations: Economy and Society

> *Encouraging savings will help build a nest egg. People with nest eggs do better; they get more invested in society….*
>
> Think Tank Analyst

The interviews revealed broad consensus that, as a society, we all have a stake in the public welfare, including helping those left behind. These arguments were not first or primarily about economic growth, though related to it in complex ways. From the Right, there is great interest in expanding ownership of assets ("ownership society") in part because building a strong middle class is necessary to a strong democracy. More broadly, ownership of private property is seen as creating a "stake" in economy and society, with attendant incentives towards responsibility and productivity. Both the Right and Left want to increase individual ownership of assets, as a means to increase individual control over one's destiny. Both, indeed, want to move people into the economic mainstream. This may reflect, in fact, a more profound underlying consensus on the co-dependence

[13] Mel Oliver and Thomas Shapiro, *Black Wealth, White Wealth* (New York: Routledge, 1997); Ira Katznelson, *When Affirmative Action was White*, (New York: W.W. Norton and Co., 2005).

[14] See, Altman, Supra at 6.

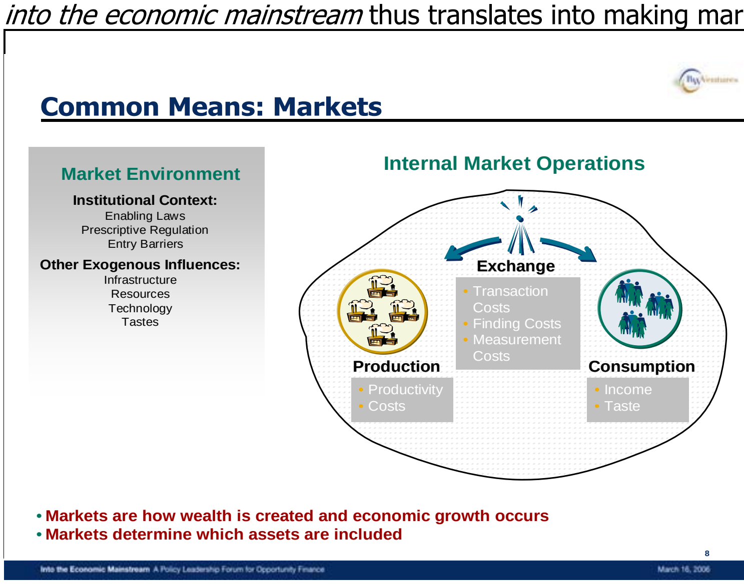
of our economic and political systems.[15] Ultimately, creating an inclusive economy is necessary for a healthy democracy, and vice-versa.[16]

Means: Market-Based Development

If our goal is to cause inclusive economic growth and related asset development, how do we get there? Here, too, the interviews revealed substantial common ground—we must "use" markets. To understand better what this means and particularly how it translates to policy, it is helpful to return briefly to some fundamental economics.[17] Markets have particular mechanisms that determine how efficiently the economic stream grows to include more assets. Markets also have limitations, and government plays key roles in determining market flow, while subject to its own limitations.

> *We need to find market-based solutions or policies that stimulate market corrections, such as creating competition for payday lenders.*
>
> Moderate Policy Analyst

The core function of the economy is to deploy resources (production) to match consumption desires. In our economy, markets are the mechanism for doing this. In a perfect, theoretical world, markets cause resources to be developed fully and efficiently to serve the most highly valued purposes. This has two key implications. First, *markets are the primary vehicle for wealth creation in our economy*. Assets have no inherent value: markets are the dynamic process through which that value is created. According to Economist Paul Krugman, "Value does not inhere in some hidden essence, but is instead an emergent consequence of market process."[18] Undeveloped land, unemployed labor, money in a mattress all become valuable only to the extent they are deployed into markets. Second, *markets determine what assets get included or not*—what people and places are "seen" and deployed. If our goal is to expand the economy or move the economic mainstream to be more inclusive, we are talking about enhancing or moving markets. This aspect of *into the economic mainstream* thus translates into making markets work for more people and places.



To understand what *moves* markets, it is useful to examine their components and operating principles. Markets are shaped by an environment—an institutional context of enabling laws (e.g., property rights), regulations (e.g., Community Reinvestment Act), and extra market incentives (e.g., New Markets Tax Credit). The market environment offers many levers for enhancing or moving market functions, as well as for unproductively distorting them.

When environmental changes influence "the market," they impact one or more of three components of

[15] Since we are focused here on economic development, we did not explore areas of common ground around broader values. There is strong evidence that we also have much more in common with respect to value areas than the current political environment would indicate. Morris P. Fiorina, *Culture War?* (New York: Pearson Education Inc., 2005). The emphasis on markets throughout this project is not meant to suggest that they do not have to be informed by and aligned with broader public values–a distinct but critical subject.

[16] Amartya Sen, *Development as Freedom* (New York: Anchor Books, 1999).

[17] This section draws heavily, but in summary form, on two companion papers. Robert Weissbourd and Riccardo Bodini, "Market-Based Community Economic Development" and "Using Information Resources to Enhance Urban Markets," (Washington, DC: The Brookings Institution, 2005). See, www.brookings.edu/metro/umi/aboutus.htm for further research and resources.

[18] Paul Krugman, *Development, Geography and Economic Theory* (Cambridge, MA: MIT Press, 1997), p. 53.

internal market operations. Internal market operations determine market functioning—who is employed, what real estate is developed, what businesses get financing, and what is produced for whom. Internal market operations can be broken into three components, each with its own levers of change. First, the production or supply side of the market is influenced by factors that affect costs of inputs and productivity (the outputs for any given cost level). If we want to expand housing markets towards producing more affordable housing, for example, production can be increased if the costs of materials go down (e.g., manufactured housing), if we can make the land assembly process more efficient, or if we reduce certain regulations limiting productivity.

Second, the consumption component of the market can be influenced through the levers of taste and income. Homeownership counseling or financial literacy programs, for example, affect the market's demand for housing and savings accounts respectively. Increased employment income also increases demand and so affects what goods and services the market produces for what people and places.

For practical economic development purposes, it is useful to break out a third market component—the exchange function. In basic microeconomic theory, there are no information or transaction costs, so the trading or exchange—where producers meet consumers and demand matches supply—happen automatically. In real life, economists and others are increasingly focused on the ways that information imperfections, measurement, and transaction costs heavily influence and often distort market operations. The costs of finding, evaluating, and closing a transaction heavily influence who is hired, where investment occurs, what is produced for whom, and myriad other economic activities. Moody's rating system, a credit bureau, or a shared airline reservations system all improve the exchange function, and so significantly enhance market functioning and expand market activity. Many of the circumstances where *market-ready* assets are left out can be traced to information and transaction cost problems. Improving information functions and reducing these costs are among the most powerful ways to expand markets to include more people and places.

Ultimately, enhancing or moving markets entails changing the conditions of production, exchange, or consumption in ways that allow market activity to include new people, assets, or places. Consider, for example, a bank evaluating a loan to an inner-city household that has "thin" credit files (i.e., less data available). The bank might incur higher costs to determine this consumer's credit worthiness or, if less able to assess credit worthiness, may have to consider the loan riskier. This higher cost or risk must be offset by a higher interest rate, which the household may not be able to afford, or rejection of the loan. One could "enhance" this market by intervening in any of its three components. Reducing the bank's cost of funds (reducing the cost of production) would enable it to make more loans or loans at a lower price. Improving the credit scoring system (increasing productivity) would reduce the costs of lending. Providing the consumer with credit training and prescreening services would change consumer characteristics (and reduce finding and measurement costs) and so increase lending. Finally, improving the quality of information (e.g., including rental and utility payments) used to determine credit worthiness would similarly reduce measurement costs (improving the exchange function). In short, each of these market functions can be improved in ways that allow the bank to profitably make more loans to people previously unable to qualify for (or afford) them, thus expanding market activity.

Policy Implications: The Roles of Government

With these frameworks, we can now recast our core question: What is the proper role and best means for government to enhance market operations toward inclusive economic growth?

If the means we wish to prioritize is markets, then the proper roles of government must be justified in terms of enhancing market functioning. Examining the power and limitations of markets suggests four distinct roles for government with respect to markets. First, government creates the environment that *enables* markets to work their magic. Next, because markets sometimes do not maximize utility, having imperfections, externalities, and other failures, government has a role in *improving* markets. Third, there are some goals that markets are not designed to achieve, either because of other kinds of limitations (e.g., public goods) or because they are non-economic goals (e.g., equity).[19] Our recognition of the power of market mechanisms, however, does imply that government often should be *using* markets to achieve these goals rather than just doing these things itself. Finally, in some instances, the non-market goals cannot be achieved by using markets, but we still want to approach them in ways that recognize the importance of markets by *getting assets market ready*. In general, according to economist Richard Nelson, "U.S. society is able to use market organization effectively in such a wide range of areas in large part because we have learned how to supplement basic market organization with a diverse structure of nonmarket forms of governance tailored to the specific characteristics of different fields of activity."[20]

The role of enabling markets is particularly relevant to the common goal of growth through increasing productivity. Fixing markets relates to the goal of deploying market-ready assets that have been left out due to internal imperfections. Using markets relates to expanding markets on their margins to include assets further from the mainstream. The last role, of course, corresponds to moving assets to market, rather than the other way around.[21]

Enabling Markets

> *It's an appropriate government role to equip communities with information and tools they need to compete in the marketplace.*
>
> Bipartisan Coalition Leader

There is no such thing as a "free" market (free from government activity) in the modern world and that is a good thing for the economy. The modern market economy can only exist within the framework of rules and authority to enforce them—property rights, the existence of corporations,[22] commercial law, etc. This basic role of government to create a framework of law and order and conditions of trust facilitates economic transactions and efficiency. Government makes markets possible. It has become particularly clear from international development economics that "effective government institutions are the tracks on which capitalism runs."[23] Increasing the effectiveness, productivity, and efficiency of government is a key goal in itself, critical to maximizing economic growth.[24] It should be noted that removing government barriers to markets also falls in this category of *market enabling*.

Beyond creating a legal framework, government creates the environment for strong economies in other ways. One of the limitations of markets concerns what is known as "public goods." These are goods that generally share two characteristics: (1) they are non-exclusive (it's hard to keep people who have not paid for the goods from using them anyway as "free riders"); and (2) they are often non-rivalrous (additional users impose no additional cost). These conditions mean private markets will under-produce these goods. Common examples include military defense, local police force, national highway system, or national parks. If left to their own devices, private markets would not buy enough of these public goods, so they require collective action. As a result, their production is a commonly accepted role of government.

> *The government's role is to reduce or eliminate market imperfections and shine a light on areas of need.*
>
> Republican Policy Leader

Many of these public goods are market enabling, providing the basic infrastructure for market operations. For example, the importance of preserving basic conditions of public safety to functioning economic markets should not be underestimated. Where government is ineffective in controlling crime, it presents

[19] For an interesting discussion of whether inequality reflects market inefficiency, such that equity might be an economic goal, see, Charles Lindblom, *The Market System* (New Haven: Yale University Press, 2001), p. 162.

[20] For a detailed analysis of the uses and limits of markets, see, Nelson, Supra at 3, p. 371.

[21] Note that we are primarily making a case for government here by reference to what will enable markets to work better. There is also a very important, much more positive case for government (as well as for other institutions, including family) as a more appropriate governance form for certain sectors and functions. Ibid, p. 16 et al.

[22] It is easy to forget that corporations are a legal fiction made possible only by government, designed to provide limited liability, legal personality, and other privileges to facilitate business.

[23] Wheelan, Supra at 5, p. 208; see, Nelson, Supra at 3, p. 227 (describing market and government as a "false dichotomy"); Thomas Sowell, *Basic Economics: A Citizen's Guide to the Economy* (Sage: Thousand Oaks, 2005), p. 271 et seq.; Altman, Supra at 6.

[24] See, Altman, Supra at 6.

major obstacles to economic development and growth. It should be noted that just because the private market will under-invest in these kinds of goods and services, it does not mean that it will not invest at all. Public education and technology infrastructure may require some government role so that investment is proportionate to their genuine utility or value. The question is, how much?[25] Our goal of growth through increasing productivity provides an additional reason for government investment in many of these areas: many of the things that will boost productivity—increasing education and skills, investing in technology and research, fostering the digital economy—have characteristics of public goods.

Improving Markets

> *Too many behaviors that impose 'negative externalities'—social costs that are not factored into the direct accounting figures—go untaxed. For instance, Humvee owners don't have to pay taxes for the environmental destruction wrought by their vehicles.*
>
> Conservative Think Tank Analyst

Markets have imperfections that often require government intervention to increase efficiency or correct for failures. The most common imperfections arise from externalities where the private costs and benefits reflected in market transactions do not capture all of the costs or benefits of the activity. These imperfections can cause markets to under- or over-invest in certain areas, and ultimately fail to perform their resource allocation functions well. This failure creates a role for government, traditionally either through regulation (to require adjustment of the activity proportionate to its effects not captured by the market), or taxation (to shift the external costs of the activity back to the market actors).[26]

This category of *improving markets* is focused on areas where the market is already performing, and on ways its internal dynamics can be improved. When we say assets are *market ready*, we partly mean that the failure of the market to deploy them reflects a market imperfection. To the extent, for example, that the Community Reinvestment Act (CRA) [27] led banks to discover profitable, but overlooked lending niches, there previously was some degree of market failure or inefficiency. If borrowers were overlooked because of irrational bias against poor or minority people or places (market optimization presumes rational decision makers), then the CRA corrected a market imperfection and improved market performance causing inclusive economic growth.

In most instances, however, a subtler market problem may be preventing creditworthy loans in isolated communities from being made. Remember, perfect market efficiency presumes perfect information and no transaction costs, rarely if ever true in the real world. If the market information available from communities is less developed or transaction costs are otherwise higher because, for example, of higher finding costs, the loan may be more expensive and less attractive to the bank. In these instances, the effect of the CRA may have been to cause development of improved information resources and transactional networks for overlooked markets. Correcting these kinds of internal market imperfections can enhance markets to be more inclusive, but it may require some activity by government.[28] The type and degree of activity is less clear in these circumstances, but will be very case or market specific.

Using Markets

> *When subsidies benefit the wealthy, they're called 'policy;' when they benefit the poor, they're called 'subsidy….'*
>
> CDFI Leader

One of the main, if not primary, justifications for the CRA was quite different than to address market imperfections: it was fair for government to force banks to engage in non-market optimal activity to advance public objectives in return for the public benefits received, such as deposit insurance. To this extent, government was "using" financial markets as a better way of

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[25] This question gets a bit more complicated because many of these goods are partly public and partly private. See, Nelson, Supra at 3, pp. 11-12.

[26] See, Sowell, Supra at 23, p. 286; see, Wheelan, Supra at 5, Chapter 3.

[27] The Community Reinvestment Act was enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 563e. Its intent is to encourage depository institutions to help meet the credit needs of the communities in which they operate.

[28] "Using Information Resources to Enhance Urban Markets," Supra at 17.

achieving a public objective than doing the lending itself. Government, in fact, routinely uses markets through subsidies, tax credits, regulation, and other incentives to both businesses and consumers to address some public objective.[29] Generally, using markets is distinguished from improving markets by whether an internal market imperfection is being addressed.

Using government incentives and regulation to move markets on their margins to be more inclusive is often justified by externalities, specifically where market activity generates positive externalities. In this case, the market is under-investing compared to the public value created because of the public value not captured in the market transactions. Enterprise and Empowerment Zones, for example, use government subsidies to target private market activity in places where it is expected to generate additional positive public benefits.

> *We need to better target government savings and homeownership programs to people who need them….*
>
> National Development Leader

When the purpose is public, why use markets rather than have government do the job? Because we recognize the power and efficiency of markets, as well as the limitations of government. That markets will not achieve all of our public objectives creates a role for government, but does not suggest that government should supplant markets rather than use them. Even well intentioned government intervention can raise the costs of goods and services and otherwise create new market inefficiencies.

Fortunately, we know something about how government can most effectively use markets. The goal is to expand or enhance markets to be more inclusive on their margins rather than, for example, subsidize activity that would occur anyway. This entails market specific analysis and carefully targeted interventions. The discussion of market operations above suggests ways particular markets can be effectively moved through interventions that increase productivity or reduce costs, reduce finding and measurement costs, or affect consumer tastes or income. This approach also implies that government should use incentives and subsidies to supplement, rather than supplant, market forces. Thus, where the market will not itself build sufficient affordable housing, creating a Low-Income Housing Tax Credit (decreasing the costs of capital as an input to production) or providing Section 8 Vouchers (increasing consumer income) are more efficient ways of expanding this market than government building its own public housing projects.

Getting Assets Market Ready

What about potential assets that are neither market ready, nor near the margins of markets? Preparing them may be a role that government can play, but we still want to encourage, where possible, playing it in a way that recognizes the central role of markets in asset development.

> *Site reuse [brownfields] helps use existing infrastructure, provides local jobs, and maximizes prior public investments.*
>
> Bipartisan Policy Coalition Leader

From this perspective, we see polluted real estate, unskilled workers, uneducated children, and entrepreneurs without resources all as dormant assets. Government has a role in developing these assets, enabling them to contribute to the economy. Participants across the political spectrum arrived at this conclusion from the same starting points: it is the most effective way to achieve public welfare objectives, and it strengthens markets and the economy. As previously noted, considerable development experience and research confirms that carefully investing in motivated people who lack resources and in underdeveloped real estate assets is not just good for the people and places, but is a key to restoring healthy market forces and a strong economy.

Getting entrepreneurs ready to successfully start businesses, providing for training or childcare to enable people to enter the labor force, enabling savings or home ownership to give people a stake and resources to participate in the economy, all can be approached with reference to markets. As several participants and the literature observed, government routinely provides resources to develop

[29] Note that government may also "use" markets as a market participant–a major purchaser and seller of goods and services. Charles Lindblom, *The Market System* (New Haven: Yale University Press, 2001), p. 257.

business assets, such as subsidies for research, and we should support investment in isolated people and places on the same grounds: they are strategic investments in inclusive economic growth, not welfare.

> *Republicans are all about markets and Democrats believe in markets as well. The next question is what supports, like childcare and education, can we put in place to enable people to participate?*
>
> Bipartisan Policy Coalition Leader

At the same time, this is the role of government that presents a slippery slope. For example, participants revealed considerable disagreement, lack of knowledge, and fortunately, emerging experience about the extent that the barriers for these assets are cultural. In some areas, including labor force development, cultural and personal barriers to full participation are often paramount. In others, particularly in financial markets, it is becoming clear that the primary barriers are not cultural, but systemic. Government needs to learn from practitioners in tailoring an effective role.

Summary: Common Grounds

1. *Grow the Economy:* first, through increasing productivity; second, through including more underutilized assets.
2. *Increase Productivity:* productivity growth entails investing in technology, human capital, entrepreneurship, research, and other knowledge resources designed to increase the productivity of individuals and institutions.
3. *Expand Inclusiveness:* inclusionary growth entails enhancing markets and asset development. Asset development, in addition to serving inclusionary growth, is independently important to address social and civic goals.
4. *Enhance Markets* through influencing their environment and internal operations, particularly productivity and input costs, taste and income, and measurement, finding and other transaction costs.
5. *Focus Government* on enabling, improving, and fixing the market environment and internal operations, making them more inclusive in ways that increase overall economic growth, as well as developing assets for markets.

We all seem to support enhancing the productivity and inclusiveness of the economy, promoting asset development to create an ownership society, enhancing and using markets, and designing certain roles of government in promoting these objectives.

Implications for Government Roles

What is the proper role and best means for government to enhance market operations towards inclusionary economic growth?

	Enabling	Improving	Using	Getting Assets Market Ready
Role	Create optimal infrastructure for market to perform; increase productivity	Fixing markets	Moving markets on their margins	Moving assets to market (developing assets in ways which yield growth)
Market Rationales	Public goods; market preconditions	Externalities, information imperfections, entry barriers	Positive externalities; more efficient approach to non-market goals (equity, public welfare)	Non-market objectives (but market awareness)
Examples	Property rights; law enforcement; transportation infrastructure	Regulating pollution; education	Enterprise Zones; New Markets Tax Credit (NMTC); CRA (in part)	IDAs; Brownfield Remediation; Education and training

← Degree to which market and asset development goals are already aligned →

10

Into the Economic Mainstream A Policy Leadership Forum for Opportunity Finance March 16, 2006

Policies and Programs

How does this framework translate to shared policy ideas? It helps, first, to extract some design principles. We then use the approach to explore policy ideas in a few illustrative program areas.

Design Principles

This framework has a wide range of implications for designing government policy. A non-exclusive list might include the following.

Customize Policy based on Analysis of Specific Markets

Using this framework, our basic policy question is: What's the appropriate role, if any, for government to make the market work better towards a particular inclusionary development goal? In shaping government interventions to improve or use markets in this way, we might first ask whether the development goal presents a problem the market could address, then analyze why the market does not currently address it. An internal imperfection such as bias requires a different response than where we seek to enhance or use the market. In the case of an internal imperfection, this approach translates into the more classic economic approach, which first asks what would a perfectly functioning market look like, where does reality diverge, what accounts for the divergence (i.e., what are the imperfections), whether there is a policy that would eliminate the imperfection, and would it be cost effective. In either case, we need to understand particular market operations and how they affect whether markets can reach the assets on the margins. Only then can we determine how government can most effectively influence production, exchange, or consumption in ways that expand market activity.

> *We first need to ask: who are the people we're trying to move into the economic mainstream? Why are they left out of the mainstream in the first place? Answers will lead to different solutions for different people and markets.*
>
> Foundation Officer

We need to know more about why particular markets are not working efficiently for certain assets or neighborhoods. This investigation will help identify market imperfections, but also where specific assets and places are on the *market-ready* pathway. This analysis, in turn, can inform policy development. As we have seen, different challenges are either more or less suited to government policy interventions of different types. For present purposes, the main point is that this requires customized, practical, case-specific analysis. We need to focus on why specific categories of places or people are left out of particular markets, and then understand the details of that market. Complicating this process is another important observation from the research—markets themselves are increasingly specialized into varied niches. When we talk about moving people into the economic mainstream (or moving the stream to include more people), we need to recognize that it is not just one stream.

Use Markets Wisely

> *Structure incentives to bring people back into the labor market, to motivate people to join the mainstream, such as lowering the payroll tax or expanding the Earned Income Tax Credit.*
>
> Think Tank Analyst

Using markets is not just an approach, but also a design principle that emphasizes that we want to rely on markets and market mechanisms to every extent possible. It means, for example, that government subsidies in *using* the market should be carefully designed only to bridge the gap between what the market will do and what we want it to do, rather than to supplant market activity.[30] It also reinforces the importance of making sure policies genuinely develop the economic potential of people and places, and move them into the economy. Generally, we want to create incentives for agents in the marketplace (individuals and businesses) to act in ways that align growth and development objectives. Finally, using markets wisely also entails knowing when not to use them, or when to leave them alone.

Expand Individual Choice and Responsibility

The success of markets derives in large part from the fact that enabling individual choice is a powerful motivator and self-regulating mechanism. Whether referred to as "freedom" or "empowerment," there is broad agreement on the benefits of expanding choice. This would seem to

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[30] For example, capital substitution has been a problem with some development finance programs. See, Karl F. Seidman, *Economic Development Finance* (Sage: Thousand Oaks 2005) at p. 444. Note that this market displacement problem has been substantial in designing business incentive programs as well. It is important to distinguish those programs that address legitimate market failures from those that provide subsidies, price supports, and regulated prices that foster economic inefficiency. While raising productivity of companies makes sense, giving money to companies with no increase in productivity often distorts markets rather than enhance them. See, Atkinson, Supra at 5, p. 293.

imply making programs more individual based, more universal (inclusive), and portable, such as vouchers and protected accounts, using them for everything from health care to education,[31] making the providers accountable to the consumers within a regulated system. Many, however, may not agree that this is the best way to expand individual choice.

Participants expressed less agreement on the policy implications of this principle. In some of these areas, such as health care, there are more market imperfections in the form of information asymmetries and uneven expertise, with greater risk of and harm from market failure.[32] Also, expanding individual choice (decision-making authority) gets confused with expanding choice (number of opportunities offered), and some are concerned about consumer paralysis in the face of too many options. This is an area where more careful discussion might be particularly productive—the disagreement seems to be less about empowering individual consumers than about how to address particular market imperfections while not losing certain safeguards that might be otherwise assured.

The flipside of expanding individual choice is expanded individual responsibility, both in management of one's expanded individual affairs and in relation to the public good. Individual motivation is not the same as narrow individualism or selfishness. Businesses, for example, are learning "competitive collaboration," in which they collaborate on some ventures and compete on others. Government program design would ideally increase alignment of individual motivation and the public good.

This emphasis on individual choice also supports and informs strategies for asset development. Individual choice is intimately related to individual capabilities; for example, diseased or starving people have much more limited choice. In a more profound sense, development is ultimately about expanding the capacity and opportunities of individuals to lead the lives they choose.[33]

Create Partnerships with Private and Civic Sectors

The focus on using markets leads to an emphasis on government leveraging the private sector to bring private sector capital, entrepreneurial activity, and free enterprise to under invested assets. As a result, participants from all quarters emphasized the importance of public/private partnerships.

> *New approaches must be more collaborative, using the private sector, such as community groups, partly because the government is not flexible enough.*
>
> Policy Leader

In fact, as the economy and society change, the entry points to the economic mainstream are changing as well—highlighting the importance of partnerships.[34] Employers, schools, and even retail stores are becoming more important points of delivery and economic engagement for everything from financial services to development activities.

An important corollary arises from this principle—good policy development requires input from the entire marketplace. Conservatives and liberals often hear most clearly the needs of their respective constituencies. If we want policies that increase the alignment of business and development and the partnerships across sectors that make markets work for everyone, then all market constituencies need to be engaged in providing input to the policy development process.

Support Local Activity and Comprehensive Approaches

These principles (customization, individual motivation, partnerships) led many participants to emphasize supporting local communities, institutions, and local action. "Devolution" and "community empowerment" have much in common. A related point is the importance of supporting comprehensive approaches, in part because markets heavily influence each other and particular places (and vice-versa). For example, employment levels affect retail markets that affect housing markets, and so forth.

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[31] See, e.g., Ted Halstead and Michael Lind, *The Radical Center* (New York: Anchor Books, 2001), p. 19-21.

[32] See, Nelson, Supra at 3, p. 213 et seq.

[33] See, Sen, Supra at 16.

[34] Robert Weissbourd, "Banking on Technology" (Washington, DC: Brookings Institute, 2002).

> *Getting these things done has to happen in the neighborhood, requiring a multi-pronged approach of government partnering with the private and nonprofit sectors.*
>
> Democratic Policy Leader

Focus on Information Resources and Specialized Institutions

While not quite policy design principles, two related points deserve mention. First, since the market imperfections that create barriers to inclusion of lower-income people and places so often concern the exchange costs created by the isolation of these assets from the mainstream, improving information resources is often a critical and particularly cost-effective tool for inclusionary market growth.[35] For example, credit scoring has dramatically driven down the costs of lending in conventional markets, but ironically has not been as effective in expanding financial markets where it is needed most because lower-income consumers have less available or accurate credit information. Similarly, the many ideas to create rating, certification systems, or branding all address key information problems. These proposals would reduce finding and measurement costs by quickly and inexpensively allowing determination of quality and reliability of varied types of assets.

Niche markets require specialized market intelligence, often best acquired through specialized institutions. These institutions are also necessary to act as private and civic sector partners embedded in local communities, reconnecting local assets to broader economic activity. CDFIs provide excellent examples of the ways local specialized institutions can profitably serve markets (i.e., expand market activity) that are otherwise excluded.

> *There will always be a need for highly localized, flexible institutions to identify the margins of the market and figure out how to operate there.*
>
> Foundation Officer

Representative Ideas

While it is well beyond the scope of this paper to analyze any particular market in sufficient detail to specify policies, it is possible to look at a few illustrative market areas, and use the framework to help organize ideas and suggest directions of inquiry. The ideas we list here are simply those that came up most often in discussion, or generated significant interest among participants; we make no attempt to analyze their political or economic potential except to suggest they warrant additional investigation.

Capital Markets

We start with capital markets because finance has special roles with respect to market functioning, operating on both the production and consumption sides of most other markets. Financial (or capital) markets allocate capital just as housing markets, for example, allocate housing. In a perfect market, capital flows to where it earns the highest returns, which corresponds roughly to where it is most productive in adding value and increasing overall utility in the economy. In terms of moving people and assets into the economic mainstream, these types of financial market activity operate in different ways: consumer products help with asset accumulation and can change market demand; business products enhance business formation and productivity, expanding markets.[36] Although finance deserves particular attention, it is important not to confuse financial markets with real goods markets. Ultimately, we want to expand the real economy and participation in it, not just affect monetary value.

Like other markets, efficient capital markets presume perfect information, no transaction costs, no externalities, rational decision makers, and many suppliers. Any of these assumptions can be wrong in particular circumstances, leading to market imperfections and opportunities for government to *improve* markets. Capital market "gaps" arise when market imperfections prevent capital from being allocated to firms and projects that can use capital most productively. Typically, capital market imperfections are grouped in two areas: (1) misallocation where capital does not flow proportionate to real risk/return parameters; and (2) social/public benefits where the capital market is efficient, but non-pecuniary

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[35] "Using Information Resources to Enhance Urban Markets," Supra at 17.

[36] On the production side, finance actually operates both as a direct input to the business process and to affect the quality of other inputs, such as infrastructure. See generally, Karl Seidman, Supra at 30, pp. 5-6.

benefits are lost.[37] Positive externalities arising from financing projects that generate major public benefits make it attractive for government to *use* capital markets as well.

Internal imperfections, particularly information availability and related transaction costs, limit lending and equity for smaller businesses and poorer workers, especially in isolated communities. Market environmental factors, ranging from regulatory factors imposing higher transaction costs to basic infrastructure or safety, heavily influence where finance is offered. In addition, the nature of the barriers defining the margins of financial markets, such as collateral limitations that prevent lending to otherwise creditworthy deals, means that even when the market environment and internal operations are working well, financial markets often can be easily *used* to expand inclusion.[38]

Addressing these failures or opportunities for expansion entails two distinct strategies: improving performance of conventional financial markets, and creating specialized institutions. In the first category, government has an enabling role in creating infrastructure, providing public goods that lower costs, or absorbing certain types of information costs, among other things.[39] Investing in productivity expands markets as well, particularly as new technologies and access points drive down transaction costs and enable more precise risk management.[40] Market imperfections are addressed through specific risk-sharing tools (e.g., loan guarantees), and through regulatory policy.[41] Similar tools can be used to expand markets, such as the successful use of collateral substitutes like the Small Business Administration's 7A program to extend lending markets to smaller businesses. Addressing market imperfections leads to increased economic efficiency and productivity, as capital is more productively allocated, and can lead to economic development or social benefits from providing capital to projects private markets did not adequately value.[42]

> *Develop a smaller model of the New Markets Tax Credit targeted to smaller projects and entrepreneurs who confront capital market barriers.*
>
> Bipartisan Coalition Leader

Non-traditional financial institutions, such as CDFIs, have also emerged to expand financial markets, generally using their specialization in particular niches to better manage risks and reduce transaction costs, as well as using targeted subsidies justified by the positive externalities they produce, allowing them to operate on the margins of conventional markets. They have proven a more efficient and effective means of extending market activity to be more inclusive in particular areas. While there is considerable variation in types, activities, and theories,[43] generally, CDFIs reflect the design principles concerning customization and specialization, local institutions, and supplementing (and highly leveraging) market forces rather than supplanting them. Interestingly, several participants suggested CDFIs should better focus, justify, and articulate their roles in ways consistent with these principles.

Examples of other ideas from the participants and literature review that further illustrate the application of this framework to CDFIs include:

- CDFIs should move towards becoming "investment bankers" for underdeveloped assets, playing a more aggressive role in identifying and packaging assets on the margins of markets, and brokering or acting as intermediaries to "grow" those assets to conventional markets.

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[37] Ibid; CFED, "Development Finance Innovations and Regional Economic Development" (Washington, DC: CFED), www.cfed.org.

[38] See, Seidman, Supra at 30, p. 16, for a summary of market imperfections by capital market type.

[39] Ibid; Wheelan, Supra at 5, p 126.

[40] Kirsten Moy and Alan Okagaki, "Changing Capital Markets and their Implications for Community Development Finance" (Brookings Institution, Harvard Center on Housing Studies, 2001); see, Sowell, Supra at 24; resources at Center for Financial Services Innovation, www.cfsinnovation.com/index.php.

[41] See, Seidman, Supra at 30, pp. 9, 17, 186, 194. In this view, the CRA addresses three types of market imperfections–it promotes competition in low-income areas; it overcomes statistical discrimination and misinformation and contributes to reducing information costs as banks learn these markets; and it addresses externalities that result from failures of the banking system to serve certain areas (requiring banks to internalize some external social costs in return for public banking charter and access to deposit insurance). Substantial evidence suggests that CRA in part encouraged banks to find what turned out to be profitable business, in effect making the capital supply more efficient by reversing discrimination and misperception. Ibid, pp. 186, 194.

[42] Ibid, pp. 9, 17.

[43] See, Lehn Benjamen et al, "Community Development Financial Institutions: Current Issues and Future Prospects" (Federal Reserve Conference Proceedings, Session 4, 2001) pp. 36-37.

- In addition to investment banking for development, CDFIs should play more active venture capital investor-type roles, particularly management, to address barriers in attracting talent and the need for talent development in smaller and more isolated ventures.
- CDFIs should focus on industry level infrastructure and technology ideas, such as licensing, certification, standardization, shared business services, and technologies to increase productivity and reduce costs.[44]
- The CDFI industry also needs to explore ways of achieving economies of scale in financing CDFIs themselves. Consider targeted mutual funds for CDFIs. Better yet, create a government bond or government guarantees for CDFIs that would require little or no budget appropriations since appropriation is only needed for projected losses.

Many participants observed that particular financial markets have improved, enabling conventional banks to move "down market," changing capital gaps, sometimes to the extent that finance is no longer a significant barrier. CDFIs have contributed to this expansion of conventional markets and will need to focus on new products and markets to the extent they do not wish to or cannot compete with conventional institutions.

Human Capital and Labor Markets

Human capital (knowledge and skills embedded in people) may be the single most important factor in increasing productivity in the knowledge economy, as well as an individual's most important asset.[45] Increasing the productivity of individuals through education and training, entrepreneurship, and addressing labor market imperfections to increase employment of the *market ready*, all contribute simultaneously to both greater overall economic growth and improved development outcomes. This is a subject area where alignment of development and growth goals should naturally be high since, for example, workforce quality is essential to the competitiveness of companies.

Human capital markets, however, offer special challenges. The producer (educator, trainer, employer providing on the job experience) does not own the product, who can walk out the door any time; therefore, an investment in a person offers no collateral. As a result of these externalities and barriers, it is likely that individuals and firms under invest in human capital, creating a role for government.[46] At the same time, basic human capital development in the form of primary education is, at best, a hybrid function since it has a public goods quality and reflects other values, making it not just a market function. Even voucher and charter school initiatives that introduce market principles to public education essentially create three-party markets, with government as the third party paying and playing regulatory and quality control roles.[47]

Forum participants, interviews, and research provided a number of policy ideas to move markets to expand investment in human capital:

- With increasing mobility of workers and firms, less established "career ladders" and more frequent need for skills upgrading and retraining, the exchange functions in labor markets become particularly important and challenged. New workforce intermediaries that better serve both employers and employees, reduce finding and measurement costs in qualifying and connecting the workforce to jobs, and create an entry and delivery point for related services (including perhaps even portable pension accounts and continuing education vouchers) should be explored.
- Considering the central role of education and training in increasing productivity, federal support for training arguably should be expanding, both through direct funding and through tax credits. Just as tax credits are justified to encourage research and development (R&D), which otherwise are not adequately invested in by the marketplace because businesses cannot capture all of the positive

[44] See, Moy, Supra at 40.

[45] See, Robert Weissbourd, "Changing Dynamics of Urban America" (Chicago: CEOs for Cities, 2004); Robert Weissbourd et al "Grads and Fads" (forthcoming); see, Atkinson, Supra at 5, p 15.

[46] See, Wheelan, Supra at 5, p. 126.

[47] See, Nelson, Supra at 3, p. 169.

externalities of the new knowledge, there should also be federal incentives for workforce training and related knowledge generation. A different version of this, focused on empowering the individual, would be refundable tax credits to individuals for skill development structured like the Earned Income Tax Credit.

- Many participants were interested in finding ways to enable more investment in human capital and more portable, continuing benefits for that investment. Suggestions included creating a more equity-like financial instrument to invest in human capital, one that is more subsidized and longer term than current student loans; targeting Children's Savings Accounts to those who need them, and expanding them to assure everyone can afford college without taking on large debt; and ideas concerning universal voucher systems.

Business and Entrepreneurship

Focusing on the production side of the market—business—is particularly important to our common strategy of economic growth through increased productivity. Not surprisingly, substantial bipartisan consensus appeared with respect to supporting entrepreneurship, business creation, and growth. There was also significant concern about over emphasis on entrepreneurship, particularly with respect to self-employment strategies and inherently small-scale enterprises, as not offering genuine opportunity for most people, or leading to substantial economic growth. Several barriers appeared here, including capital market limitations with respect to equity and early-stage debt for smaller, particularly minority and urban, businesses, cultural and experiential barriers to entrepreneurship among certain groups, under-investment by business in technology, R&D, and human capital because of inability to capture their externalities, and misguided incentives and political patronage that distort markets by favoring particular companies, enhancing their wealth without increasing their productivity or overall market efficiency.

While the participants at this stage did not include as many people or institutions focused on policies with respect to business, a few ideas surfaced:

- Support specialized institutions and products designed to help smaller companies, including customized financing, programs offsetting information and regulatory costs, collateral substitutes for low net-worth entrepreneurs, and targeted tax incentives.[48]
- Create more vehicles, including use of market mechanisms, for peer-to-peer learning and intensive mentoring for entrepreneurs and small businesses, as a particularly cost effective way of *getting assets market ready*—moving people into the economy in ways that maximize inclusionary, productive growth.
- Investing in business for productivity-driven economic growth entails targeting incentives much more carefully, rather than assuming that any subsidy to business translates into investments that increase productivity. Instead of broad tax cuts, policy should focus on more targeted tax benefits for investments in R&D, human capital, and other productivity factors.
- Similarly, there is a sense of opportunity in exploring policies and programs that would connect and align business growth with labor force development, urban development, and individual asset creation. This entails carefully designing subsidies justified by their associated positive externalities to assure alignment occurs. Programs such as the New Markets Tax Credit, which several participants noted could be better targeted for business and less for real estate, fall in this category. Related suggestions to bring people back into the labor market included offering incentives to businesses who hire lower-income people and lowering payroll taxes, at least for certain employees or businesses.
- Experience with manufacturing assistance programs suggests that connecting technical assistance with financing is critical. Some smaller companies think their problem is money when it is not. They often need technical assistance to help them access specialized money based on better

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[48] See, e.g., Lisa Servon, "Policy Options to Support Entrepreneurship among Low Income Americans" (Washington, DC: New America Foundation, 2005).

understanding of their stage of growth, etc. Participants were interested in exploring more federal programs that support this combination of resources and expertise.

- With respect to smaller scale entrepreneurship, target particular locations (such as rural areas) and populations (such as African American males) where self-employment and small enterprise strategies offer opportunity, but are under represented; provide financial education much earlier and more comprehensively throughout the educational system; and address collateral, health insurance, and other barriers.

Housing Markets

Home ownership is a primary asset and key method for building wealth, as well as important to neighborhood stability and development.[49] In many respects, government policy has been phenomenally successful in enabling and using markets in this area. The Low Income Housing Tax Credit (LIHTC), for example, was frequently cited as an example of government effectively using markets and leveraging partnerships. Challenges remain, however, and the successes themselves suggest that some policies are out of date and new ideas may be needed.

- Generally, participants reported that housing financial markets are in good shape. Indeed, in some instances, the problem is not lack of finance, but too much (loans that either put people in homes they cannot afford or on predatory terms). Current programs, by and large, should be continued, but there was not great demand for general expansion of these programs. It should be noted that some participants did think more LIHTC dollars, Section 8 vouchers, and similar programs were needed, but most agreed that there should be greater targeting of existing programs. Interestingly reflecting the commitment to markets, most participants suggested that the proper response to predatory lending was not primarily government regulation (beyond disclosure and enforcement of current laws), but encouraging competition in these sub-markets, particularly by CDFIs.
- Several participants from across the political spectrum suggested that the Mortgage Interest Income Tax Deduction may be, at best, out of date and should be restructured or eliminated. It arguably distorts the market in ways that increase the costs of housing and tends to subsidize higher-income people to buy more housing, while being less valuable to those in lower tax brackets. It was suggested that it be replaced with a more targeted home ownership tax credit. Others pointed out the political infeasibility of these ideas regardless of their merit.
- There may be a need for new targeted financial products in some markets. Suggestions included 40-year mortgages because the current interest-only mortgages may create problems. Another idea was an "American Dream" home equity insurance fund that protects lower-income homeowners, particularly in weak markets, from downturns. This could be funded through a very small tax on all of Fannie Mae's derivatives, which would then generate a pool to be used to guarantee equity of new homeowners, or to provide an insurance policy that makes up any loss in equity.
- We have a shortage of affordable housing (both rental and ownership) that deserves government attention for public welfare, asset development, and inclusionary growth objectives. Two mismatches were identified, between (1) our creation of low-wage jobs and low-income housing; and (2) the locations of lower-wage jobs and affordable housing. Existing housing programs could better consider distribution, land use, and other local regulatory barriers.
- Government, particularly local government, has increasingly used recording, transfer, impact, and related real estate fees as a source of revenue, driving up the production and transaction costs of housing. It can alter this market environment, enabling more market activity and particularly production of lower-cost housing by selectively reducing these costs. A related idea was to correct the barriers in application of HUD housing policies that discourage developers from developing

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[49] See, e.g., Benjamen, Supra at 43.

brownfields. For example, regular HUD housing assistance programs may require too high a level of clean-up certification.

- This market could particularly benefit from investments in productivity, which may require some government incentive because of barriers and externalities. From housing assembly to paperwork, real estate experts suggest that productivity and affordability could be greatly enhanced by developing better systems and using more technology. The industry may have under-invested in R&D in this regard.
- Several participants suggested that there are unusually high transaction costs that could be substantially reduced with better technology— title searches, closing costs, and basic connection of seller and buyer. The systems, by and large, are behind the digital transformation that has so enhanced productivity and reduced costs in other industries.
- Affordable housing shortages remain for the neediest. Here, government can more effectively *use* the market than supplant it, with programs like developer set-asides (in hot markets); tax increment financing districts, state housing funds for regional affordable housing to address jobs/housing mismatch, and tax credits for employers providing assistance with housing.

Savings/Assets

Remarkable concurrence was expressed around encouraging individual savings and asset development for multiple reasons, particularly including the positive relationship between economic security and economic growth.[50] Since asset development, particularly for lower-income populations, primarily occurs through home ownership, the housing market ideas are relevant here as well.

- Conservative think tank leaders and liberal development practitioners both talked about "universal capitalism"—creating unified, universal, portable accounts that combine in various degrees IRAs, IDAs, pensions, child and education accounts, and other programs to promote savings and ownership. Related ideas included expanding IRAs for small businesses, making the Saver's Credit refundable, auto-enrollment in 401(k)s, and removing program barriers to savings for lower-income people (such as having to deplete IRAs or 401(k)s before receiving food stamps).
- There is interest in finding the 21st century equivalent of the 19th century Homestead Act and the 20th century Home Mortgage Interest Deduction—programs that dramatically expanded asset ownership. Ideas tend to focus on capital assets and business equity, particularly because uneven access to equity markets has been one of the drivers of income inequality. Ideas include expanding conventional stock market investment, providing broader employee or local resident ownership in return for government assistance to corporations, and providing local residents ownership interests in local redevelopment efforts. One recommended step was to abolish any tax on dividends generated by mutual funds when they are reinvested and the owner's income is less than $50,000.
- With respect to increasing savings, programs linking savings to other financial activities and alternative access points are proving successful and could be expanded. These include tax refund splitting programs where a portion of refunds automatically goes into a savings or retirement account; automatic payroll deductions into savings or retirement accounts; linking savings to credit where with direct deposit of a paycheck, credit is extended with part of the repayment automatically going into a savings account; and use of stored value cards.[51]
- Particular programs that enable and simplify savings were also frequently mentioned, including matched savings programs such as IDA tax credits, a refundable savers credit, expanded and more targeted Earned Income Tax Credit, and various other ways to expand particularly work-based savings.[52]

[50] See also, Altman, Supra at 6.

[51] See generally, Center for Financial Services Innovation, www.cfsinnovation.com.

[52] See, e.g., Pamela Perun and Elena Chavez, "Building A Savings Society: Can Tax Reform Help All Americans?" (Washington, DC: Aspen Institute, 2006).

Other Ideas

A wide range of additional ideas were suggested that were not specific to one market, often concerning institution building, more general government issues, or particular existing programs. Some of these are summarized below:

- In some circumstances, new types of institutions acting as specialized market developers or intermediaries, such as CDFIs, are a more efficient way to use markets or get assets market ready. In this regard, the convergence of business or market approaches with development goals implies our fundamental corporate legal structure is out of date. We have for-profit corporations that are in varied ways discouraged from public benefit activity (e.g., required to maximize shareholder value). We have nonprofit corporations discouraged from being fully business like (e.g., unable to have conventional equity investors and distribute profits). We should consider a new corporate form—for-profit, public purpose corporations with tax benefits proportionate to the public purpose outputs and other protections to avoid unfair competition, corruption, and similar issues.
- The Federal Home Loan Bank System (FHLB) could free up considerably more money for targeted development lending. Currently, 10% of profits are designated for the Affordable Housing Program (AHP), and 20% of profits are designated to retire the REFCORP bonds. In 1999, the REFCORP obligation shifted from $300 million per year to 20% of profits. As a result, the FHLBs have been re-paying the obligation at an accelerated rate, since 20% of profits have been more than $300 million annually. The recommendation was to cut back the REFCORP payment to 10% of profits instead of 20%, then channel the difference into a community economic development program modeled on the AHP program, providing perhaps $250 million a year.
- There is growing interest in determining whether some CRA equivalent for non-depository financial institutions would be appropriate. The fundamental notion would be to design incentives and regulations using these markets commensurate with the special public benefits conferred upon them. One starting point, with respect to insurance, might be to create an optional national insurance regulatory regime.
- Investment in basic research and product development, technology, and infrastructure, is critical to productivity growth and deserves government support because of positive externalities, among other things.[53] Support for R&D, technology, and infrastructure for the community economic development field is particularly lean, and such investments would especially align economic development and growth.

Next Steps

The inclusionary growth through market-based development framework seems to offer a productive basis for discussion and exploration of common and new policy ideas. To move forward, though, participants essentially identified three steps: we need to (1) fill in and refine the framework; (2) identify and develop particular bipartisan policies and programs within the framework; and (3) develop the political and organizing strategies to move the policies forward.

In proceeding with these steps, participants confirmed a need for brutal honesty—to search for ideas and solutions not imprisoned by good intentions, jeopardized by unrealistically rosy assumptions or destined to failure because of political rigidity. With respect to exploring particular policies, we will need to identify the ones that offer the greatest overlap of alignment, development impact, and organizational agendas. Ideally, policies would further organizational goals in ways that maximize the alignment of growth and development, and the degree of development impact. With respect to political strategy, we would look for the intersection of policy, politics, and practice: what are the policies that are politically feasible and best reflect and further practitioner work?

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[53] See, Nelson, Supra at 3, pp. 231-3; Altman, Supra at 6, p. 17.

There are, of course, considerable political barriers; there is much we do not agree upon, and the political environment is highly partisan. At the same time, there is clearly interest in getting beyond the current stale debate, in reaching for new ideas and partnerships, and there seems to be no shortage of good ideas. Ultimately, we need careful empirical evaluation of the relationships in particular markets of economic development and growth, of productivity and inclusion, as well as better analysis of the respective roles of market, family, nonprofit, and government in specific spheres. We need more "clinical economics" in the sense of applied research, learning, and product development.[54] Fortunately, as one participant noted, the market framework imposes a certain discipline and creates a capacity to test ideas since pilot programs can be developed and tested in the marketplace. Indeed, it might not be a bad thing if the Shumpeterian process of "creative destruction" that occurs with businesses in the economy occurred more often with political programs.

Summary

Conclusions would be premature at this early stage in the process. Rather, we hope to have provided some basis for discussion and some ideas for the work ahead. That work entails better understanding of how to align inclusiveness with productivity growth in particular industries, markets and places, and with respect to particular assets. It entails exploration of how specific markets are operating and identification of imperfections and opportunities for enhancement. Finally, it entails designing new government programs to expand market productivity, addressing imperfections, using markets wisely, and moving the most distressed people and places towards the economic mainstream. Our early sense is one of great promise and hope. Beneath the rhetoric, we share the most critical values of expanding capability and choice, productivity and prosperity, freedom and community for all.

[54] See, Jeffery Sachs, *The End of Poverty* (New York: Penguin Press, 2005).

Appendix A: Participant Lists

Forum Participants

Opportunity Finance Network and CFED held an invitation-only national leadership forum to develop a new bipartisan policy agenda, strategy, and set of recommendations for opportunity finance and domestic economic policy. This forum, "Into the Economic Mainstream: A Policy Leadership Forum for Opportunity Finance," took place on March 16, 2006 in Washington, DC. The following participated in the forum:

- **Boston Community Capital**
  - √ Elyse Cherry, CEO
- **CDFI Fund**
  - √ Linda Davenport, Deputy Director of Policy and Programs
- **CFED**
  - √ Andrea Levere, President
  - √ Carol Wayman, Senior Legislative Director
- **Consumer Bankers Association**
  - √ Steve Zeisel, Vice President & Senior Counsel
- **Department of the Treasury, Financial Institutions**
  - √ Louisa Quittman, Director, Community Adjustment and Investment Program, Office of Financial Education
- **Enterprise Corporation of the Delta**
  - √ Ed Sivak, Director of Policy & Evaluation
- **Fannie Mae**
  - √ Joseph Firschein, Director, American Communities Fund
- **Federal Housing Finance Board**
  - √ Allan Mendelowitz, Board Member
- **Federal Reserve Board**
  - √ Sandra Braunstein, Director, Division of Consumer and Community Affairs
  - √ Sheila Maith, Senior Associate Director
- **Ford Foundation**
  - √ George McCarthy, Senior Program Officer
- **Heritage Foundation**
  - √ Rea Hederman, Senior Policy Analyst and Manager of Operations, Center for Data Analysis
- **Joint Center for Housing Studies**
  - √ Eric S. Belsky, Executive Director
- **JPMorgan Chase**
  - √ Mark Willis, Executive Vice President
- **Kentucky Highlands Investment Corporation**
  - √ Jerry Rickett, President & CEO
- **Low Income Investment Fund**
  - √ Nancy Andrews, President & CEO
- **MacArthur Foundation**
  - √ Debra Schwartz, Director of Program Related Investments

- **National Governors Association**
  - √ Juan Otero, Economic Development & Commerce Committee Director
- **Opportunity Finance Network**
  - √ Mark Pinsky, President & CEO
  - √ Sandra Kerr, Senior Vice President & Director, Policy
  - √ Cheryl Neas, Vice President, Policy
- **The Reinvestment Fund**
  - √ Jeremy Nowak, President and CEO
- **RW Ventures, LLC**
  - √ Bob Weissbourd, President
- **Self-Help**
  - √ Eric Stein, Chief Operating Officer
  - √ David Beck, Director of Policy
- **Senate Committee on Banking, Housing and Urban Affairs**
  - √ Jonathan Miller, Professional Staff
  - √ Patience Singleton, Counsel
- **White House Economic Council**
  - √ Dan Heath, Associate Director

Interviews

The Opportunity Finance Network and CFED, through an independent consultant, conducted research and held interviews with a diverse, bipartisan group of policy thinkers, policy makers, academics, advocates, and practitioners to gather new ideas and identify untapped opportunities. We formally interviewed 17 people representing 14 groups, and informally interviewed another dozen leaders from diverse institutions. Participants discussed ideas about opportunity finance and covered everything from products to policy ideas. We expected to hear varied comments, both divergent and common assumptions, and wide-ranging recommendations. We were not disappointed. The following participated in the interview process:

- **CATO Institute**
  - √ William Niskanen, Chairman
- **Federal Housing Finance Board**
  - √ Allen Mendelowitz
- **Federal Reserve Board**
  - √ Sandra Braunstein, Director, Division of Consumer and Community Affairs
  - √ Sheila Maith, Senior Associate Director
- **Ford Foundation**
  - √ Frank DeGiovanni
- **Heritage Foundation**
  - √ Rea Hederman, Senior Policy Analyst and Manager of Operations, Center for Data Analysis
- **Joint Center for Housing Studies**
  - √ Nic Retsinas, Director
- **National Association of Realtors**
  - √ Joe Molinaro, Manager, Smart Growth Programs, Environmental Division
- **National Council of La Raza**
  - √ Eric Rodriguez
- **National Democratic Conference**
  - √ Chuck Cooper
- **NE/MW Congressional Coalition**
  - √ Charlie Bartsch
- **Rural Enterprises, Inc.**
  - √ Kenny Simpson
- **University of Massachusetts, Amherst**
  - √ Sheila Bair, Dean's Professor of Financial Regulatory Policy
- **U.S. Conference of Mayors**
  - √ Dave Gatton, Director of Council for the New American Cities

- **White House Economic Council**
  - √ Dan Heath, Associate Director