

An Inquiry into the Nature and Causes of Poverty in America And How to Combat It

By The Honorable Jack Kemp

It is a pleasure to be back at Heritage among so many friends and colleagues. Actually, I was looking forward to working here, until President Bush asked me to join his cabinet. After my first couple days at HUD, when I started discovering the scandal and abuse, I almost called Ed Feulner to get my old job back.

We are living in the single most dramatic era in world history, other than perhaps at the founding of our Republic in the Revolution of 1776. Consider this quotation:

In an ironic sense, Karl Marx was right. We are witnessing today a great revolutionary crisis — a crisis where the demands of the economic order are colliding directly with those of the political order. But the crisis is happening not in the free, non-Marxist West, but in the home of Marxism-Leninism, the Soviet Union. What we see here is a political structure that no longer corresponds to its economic base, a society where productive forces are hampered by political ones.

Ladies and gentlemen, that was not last month or last year, that was said in June 1982 by President Ronald Reagan in an historic speech to the English Parliament. How far we've come! And we've come a lot further than even Mikhail Gorbachev understands. Just a few days ago at Stanford University, he said that it doesn't matter who won the Cold War. With all due respect, it does matter, very much. The real Cold War victory is not our arms over their arms, it is a victory of the American idea of democratic capitalism over the Soviet idea of statist socialism. The truth is President Gorbachev will not be able to repair socialism, it must be replaced.

All around the world, despite the resistance of the old guard, freedom and free markets, democracy and capitalism are increasingly on the march. From Eastern Europe and Latin America to Africa and Asia and even the Soviet Union, people are dreaming of freedom and democracy after decades and even centuries of oppression, poverty, despair, and debt.

Permanent Revolution. In his State of the Union address, President Bush called it the revolution of 1989, but perhaps it may be in reality just the continuation of the American revolution of 1776. Marxist-Leninists used to talk about their "permanent revolution," but as it turns out the only permanent revolution the world has ever seen is the American Revolution.

Yet, in such revolutionary times, Charles Dickens's observation on the French Revolution may well still apply: it can be the best of times and the worst of times simultaneously. Here in the U.S., we're enjoying unprecedented economic growth and opportunity, yet after nearly eight years of continuing expansion, there are some parts of our nation and all too

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many of our people left out and left behind, suffering from the tragedy of homelessness, poverty that stretches over generations, and a sense of hopelessness and despair about the future.

As Ed Feulner said recently, the world is looking to us for advice on the free market ideas of Adam Smith: "They don't want lectures on income redistribution and capitalist exploitation, they want income and capitalism."

Ed is right; but after one and a half years of representing the Bush Administration at HUD, I know that not only is Eastern Europe looking to us for market-oriented answers, but so is East Harlem, East St. Louis, and East L.A.

If we are to present the example of democratic capitalism and the rule of law to the rest of the world, we've got to make it work for the low-income people and distressed neighborhoods and communities right here in our own country.

Right Morally. Helping those left behind and left out is not only a moral imperative for our nation, I am convinced it is also a winning – indeed decisive – political strategy for bringing impoverished communities and low-income people and minorities into the ranks of the Party of Lincoln. Whether it's called bleeding heart conservatism, capitalism with a social conscience, or populist conservatism – it's the right thing to do, the right time to do it, and we're the right people to help lead it.

Robert Kuttner of the *New Republic*, an equally-bleeding heart but liberal columnist, recently wrote that polls continue to show that the voters trust Republicans more than Democrats to conduct foreign policy, manage the economy, hold down inflation, and resist higher taxes. Democrats still score only on the question of who cares more about the common American. He goes on to conclude that if Republicans ever figure out that they can capture the issue of caring as well, the Democrats might as well go out of business.

Now, I don't want to put them out of business, just out of the Congress!

Traveling across the country, I've seen thousands upon thousands of low-income people and families in public housing communities eagerly seeking change and responding positively to our ideas. They don't want more government promises and egalitarian welfare schemes, they want to live in neighborhoods free from crime and drug abuse, with good jobs and opportunities to own property and homes; they want quality education so that they and their children can live better lives. They want what we all want – a chance to develop their talent, potential, and possibilities.

Republicans Understand. Our friend Kimi Gray of Kenilworth-Parkside recently said that her residents and public housing tenants throughout the country may be registered Democrats, but they work with Republicans because Republicans are "the ones that seem to understand that we do not want to stay a poor and permanent underclass."

Well, of course that's true. And that's how Mr. Lincoln built the Republican Party. As he said, "When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition: he knows that there is no fixed condition for his whole life."

A debate over how to increase the wealth and opportunities of the poor plays to the strengths of our Party's Lincoln wing – our most authentic roots. The Democrats will win any debate over redistribution. After all, that's what they are on this earth for. But that's the

debate of yesterday. Today's debate is how to tap and unleash the wealth, talent, and potential in low-income communities and cities all over America.

Cuomo's Tale. In 1984, Governor Mario Cuomo of New York electrified the Democratic Convention with his tale of America as two cities, one rich and one poor, permanently divided into two classes. He talked about the rich growing richer and the poor becoming poorer, with the conclusion that class conflict, if not warfare, was the only result, and redistribution of wealth was the solution.

But with all due respect to Governor Cuomo, he got it wrong. America is not divided immutably into two static classes. But it is separated or divided into two economies. One economy — our mainstream economy — is democratic capitalist, market-oriented, entrepreneurial, and incentivized for working families whether in labor or management. This mainstream rewards work, investment, saving, and productivity. Incentives abound for productive human, economic, and social behavior.

It was this economy led by President Reagan's supply-side revolution of tax rate cuts in 1981 that generated 21.5 million new jobs, more than 4 million new business enterprises, relatively low inflation, and higher standards of living for most of our people. This economy has created more jobs in the last decade than all Europe, Canada, and Japan combined. And according to the U.S. Treasury, federal income taxes paid by the top 1 percent of taxpayers has surged by over 80 percent — up from \$51 billion in 1981 to \$92 billion in 1987. Harvard and White House economist Lawrence Lindsey estimates that by 1985, economic output was between 2 and 3 percent higher than it would have been without the tax cut.

But the best news of the eighties was that good policies lead to good results, confirming what deep down we always understood, that the real wealth of America comes not from our physical resources, but our human resources; not from things, but from ideas.

But there is another economy — a second economy that is similar in respects to the Eastern European or Third World "socialist" economy if you will — and it is almost totally opposite to the way people are treated in our mainstream capitalist economy, and it predominates in the pockets of poverty throughout urban and rural America. This economy has barriers to productive human and social activity and a virtual absence of economic incentive and rewards that deny entry to Black, Hispanic and other minority men and women into the mainstream, almost as effectively as hiring notices 50 years ago that read "no Blacks (or Hispanics or Irish or whatever) need apply."

Noble Intentions Gone Awry. The irony is that the second economy was set up not out of malevolence, but out of a desire to help the poor, alleviate suffering, and provide a basic social safety net. But while the intentions were noble, the results led to a counterproductive economy. Instead of independence, it led to dependency. In effort to minimize economic pain, it maximized welfare bureaucracy and social costs that are near pathological.

Now, let's pause, and step away from our orthodox notions and examine this from afar. What if you wanted to create poverty. What policies and principles would you use to destroy the economy of cities and make people dependent on government? How would you do it? Let me offer some suggestions:

- 1) Impose steeply graduated and progressive tax rates and then inflate the currency to push people into ever higher tax brackets.

- 2) Reward welfare and unemployment at a higher level than working and productivity.
- 3) Tax the entrepreneur who succeeds in the legal capitalistic system much higher than in the illicit underground economy.
- 4) Reward people who stay in public housing more than those who want to move up and out into private housing and homeownership.
- 5) Reward the family that breaks up rather than the family that stays together.
- 6) Encourage debt, borrowing, and spending rather than saving, investing, and risk-taking.
- 7) But most of all, if you really wanted to create poverty and dependency, weaken and in some cases destroy the link between effort and reward.

Examples abound of how Third World disincentives have created poverty in inner cities. I recently read a *Wall Street Journal* article about a woman on welfare in Milwaukee, Wisconsin who tried to put away a few pennies, nickels, dimes, and dollars so that one day she could do what every other mother wants to do, send her daughter to college. She managed to build a savings account of just over \$3,000, but there was a catch. The social welfare agency said she was violating welfare rules. She was taken into court, prosecuted for fraud, and fined \$15,000. But since she didn't have \$15,000, they just took her \$3,000, gave her a year's sentence in jail, but suspended it.

Guess what? According to the same *Wall Street Journal* article, she now spends every cent she gets, and she must rely on government subsidies to pay for just about everything. Incidentally, the story may have a good ending for this woman. After I talked about her in a speech, a man came forward from the audience and offered to finance a trust fund for the cost of a college education for the young girl.

Eugene Lang, a wealthy businessman from New York City, also believes in the power of incentives to produce positive behavior. According to the *New York Times*, he went into P.S. 121 elementary school in East Harlem and told children that if they stayed in school, got good grades, stayed drug free, and qualified, he would personally pay for a college education. Talk about behavior modification! Whereas, 60 percent of those children were dropping out, today 90 percent are in their first two years of college.

Negative Pay. The startling fact in America today, however, is that the highest marginal tax rates are not being paid for by the rich, but by welfare mothers or unemployed fathers who want to take a job. In most cities, a welfare mother would have to earn \$15,000-\$18,000 in a private sector job to earn the equivalent of the average tax-free welfare payment. According to a study by Christopher Jencks and Kathryn Edin in the *American Prospect* magazine, a working mother with two children employed at about \$5.00 per hour, would actually take home pay of about minus 45 cents per hour. She'd be losing nearly \$4.00 a day after taking into account the loss of government benefits, taxes, and work-related expenses such as transportation and child care.

The heavily-regulated U.S. housing market is another example of government-created scarcity. Rent controls in many major cities have crippled rental housing by making it unprofitable to be a landlord or investor in affordable housing. And make no mistake about it,

rent controls do not help the poor. The foreign minister of communistic North Vietnam vividly recalls the lessons of rent control in this own country when he said recently that the war couldn't destroy housing in Hanoi, "but we have destroyed our city by very low rents. We realize it was stupid and that we must change policy."

Ladies and gentlemen, if communists can learn to change, why can't bleeding heart, liberal democrats!

Subsidies for Affluent. While affordable housing is a real national challenge, and we in the Administration are taking steps to solve it, there is no shortage of low-income housing in some so-called tight markets – it's just occupied by affluent people. Author William Tucker points out that Ed Koch maintained a \$441 per month Greenwich Village apartment during his twelve years as mayor of New York and actress Shelly Winters paid a little more for a two bedroom apartment near Central Park.

Another glaring example of counterproductive government policy is how HUD was subsidizing vacant public housing until we took over. It had been costing the taxpayer over \$1,300 per unit to subsidize vacant public housing often used as crack houses for gangs and drug pushers. You'll be glad to know that we have started a policy called Operation Occupancy where only units actually occupied by low-income people will be subsidized with public housing funds.

As I said earlier, the good news is that government policies can change and that good policy can lead to good results. Productive human effort can be promoted, behavior can be modified or altered. Work effort can be unleashed. The forces that cause poverty can be reversed. President Bush said that for these seeds of productive behavior to grow, we must "give people – working people, poor people, all our citizens – control over their own lives. And it means a commitment to civil rights and economic opportunity for every American."

Along with planting a billion new trees in the decade of the nineties, we ought to plant the seeds of millions of new minority enterprises. In other words, expanding the base of capitalism and access to capital can alter the conditions of poverty. In the Bush Administration, we recently set as a goal the creation of more than 1 million new home owners by 1992 through our HOPE initiative, i.e., Homeownership and Opportunity for People Everywhere. We plan through urban homesteading, privatization of public housing, and reform of FHA to make homeownership and empowerment the hallmark of this Administration's housing and urban development policy.

As columnist William Raspberry wrote recently "...when assets are present, people begin to think in terms of the asset. If a young mother owns her own home, she begins to pay attention to real estate values, property taxes, the cost of maintenance and so forth Note," he says, "that it is the assets themselves that create this effect, as opposed to just educational programs or exhortations toward better values."

Freedom and Opportunity. Stuart Butler and Bob Woodson point out that to the liberals, empowerment means giving power to government to control our lives. But empowerment really means not control over others, but freedom to control one's own affairs. The poor don't want paternalism, they want opportunity – they don't want the servitude of welfare, they want to get jobs and private property. They don't want dependency, they want a new declaration of independence.

In that spirit, let me outline some ideas for a national agenda to help low-income people and our nation find the keys that will unlock the shackles and cycles of poverty and despair.

First, cut the capital gains tax to 15 percent for the nation and eliminate it altogether in distressed inner cities and rural communities we would designate as Enterprise Zones. President Bush correctly implored the Democratic majority in Congress to cut the capital gains tax rate and finally – after ten years – to establish what 37 states have already implemented, Enterprise Zones, as a national policy.

The capital gains tax reduction isn't to help the rich or secure old wealth, but to free up or unlock old capital and old wealth to help new business, new risk-takers, job-creation, and economic growth. Virtually every survey shows that the major problem for inner city entrepreneurs is the absence of seed capital. The capital gains tax reduction, coupled with Enterprise Zones, will help "unlock" existing, status-quo capital to fund and support a whole new generation of budding entrepreneurs in America's inner cities where economic opportunity is needed most.

When the top capital gains tax rate was reduced from 49 percent to 20 percent, the number of small company start-ups more than doubled, rising to 640,000 and creating 15 million new jobs. By dramatically reducing the capital gains tax rates again, and greenlining inner city neighborhoods, we can expand the economy and put that enormous job-creating potential to work where it is needed most.

Not only would a lower capital gains tax rate help the poor, but it would also increase tax revenues. Lower capital gains rates would greatly increase the number of capital gains transactions passing through federal, state, and local tax gates, raise the total value of assets throughout the economy, and make the economy bigger, more efficient, and more productive.

Second, an expansion of resident management and urban homesteading in public housing can empower residents to acquire private ownership and control of their homes and receive pride and dignity of ownership.

Third, housing vouchers and certificates should be significantly increased and expanded so as to give low-income families greater choice and more freedom where to live, while expanding access to affordable housing for those most in need.

Fourth, a new version of tax reform is needed to remove low-income families from the tax rolls and dramatically increase the after-tax income of welfare mothers and unemployed fathers who go to work.

In 1948, at the median income, a family of four paid virtually no income taxes, and only \$30 a year in direct Social Security taxes (1 percent). This year, the same family's tax burden would be over \$6,000. To be comparable to 1948, the personal exemption – the tax allowance for the costs of nurturing children – would have to be well over \$6,000 today. Instead, it is only \$2,000.

Fifth, a dramatic expansion of the earned income tax credit, the creation of up to a \$6,000 exemption for children under 16, and the President's Child Care tax credit to roll back this tax burden on low-income families and unemployed parents.

Sixth, helping homeless people who now wander aimlessly in streets or are warehoused in shelters. The Congress should pass the Administration's new Shelter Plus Care program to expand community-based mental health facilities, drug abuse treatment, job training, and day care. This program will help homeless Americans get shelter, transitional housing, and support services to help them reenter the mainstream economy.

Seventh, in order to enhance education and opportunity, we've got to expand true choice and competition through magnet schools, education vouchers, tuition tax credits, and the type of choice-enhancing policies that Wisconsin state Representative Polly Williams and Detroit Councilmember Reverend Keith Butler recommend.

Eighth, Congress should pass President Bush's HOPE legislation, including IRAs for first time homebuyers, the low-income housing tax credit, and Operation Bootstrap linking housing vouchers to strategies for gaining self-sufficiency.

Winning the War. My friends, over 200 years ago Adam Smith wrote the recipe for creating wealth. It was titled an *Inquiry into the Nature and Causes of the Wealth of Nations*. Today, I'm asking for an inquiry into the nature and causes of the wealth of *cities*. It's a variation on Adam Smith's theme of "natural liberty." As I said in another speech to Heritage about what George Gilder called the quantum age of new technology, our greatest assets are not in the wealth we see around us but the potential which is unseen...in the minds yet to be educated, in the businesses not yet opened, the technologies not yet discovered, the jobs waiting to be created. Wealth is not what we've done, but what we have yet to do.

This is a country of dreams. America has long dreamed of a better future for people everywhere. America's permanent revolution has brought a fresh air of freedom that's blowing around the world. Yes, it's a struggle. Yes, we need to stay strong. Yes, we need to maintain our alliances. Yes, we must maintain peace through strength. But also it's time to bring the revolution back home to America to extend the capitalist economy across our whole society, and put it to work for all of our nation's people.

In May 1981, Ronald Reagan said that "The West will not contain Communism, it will transcend Communism. We will not bother to denounce it, we'll dismiss it as a sad, bizarre chapter in human history whose last pages are even now being written."

Just as Ronald Reagan predicted the transience of Communism, so must we commit ourselves to put poverty on a path towards elimination. Let us make the decade of the '90's the time we win the war against poverty, just as the decade of the '80's was the time we won the cold war against Communism. Let us dedicate this decade to the rebirth of human potential, freedom, and equality of opportunity for all.

Thank you, and God Bless America.