

**Secretary Jack Kemp  
Addresses  
The National Alliance  
of Business**

**“Getting America and the World Moving Again:  
Democratic Capitalism in a New Millennium of Freedom”**

**Washington, D.C.  
October 7, 1991**



*“America at last has its chance to lead the emerging democracies of East and West into a new millennium of unbounded freedom. After a century of struggle against totalitarian regimes of every imaginable form, democracy is no longer a fragile American experiment. It is a powerful force linking nations together in a vast global enterprise. We must seize this opportunity to complete the democratic revolution begun in 1776.”*

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Thank you very much, Bill Kolberg (President of the National Alliance of Business) for that kind introduction. It's an honor to address this conference of the National Alliance of Business. In 1991, nearly 3,500 NAB member companies were involved in the Alliance's mission to upgrade the American workforce and bring unemployed and low-income Americans back into the economic mainstream.

NAB was formed in 1968, at the height of the Johnson era's first War on Poverty. But while Great Society programs only reinforced the underlying patterns of poverty, NAB's public-private initiatives gradually brought to bear the power and experience of the private sector. Thousands of American workers have benefited by your commitment to practical, anti-bureaucratic, free market programs which work.

I think, frankly, that the NAB model was the inspiration for a key part of President Bush's America 2000 plan. The New American Schools Development Corporation, which is chaired by my good friend Governor Tom Kean, will raise \$150 million in corporate donations to harness private sector experience to literally reinvent the American school. Ultimately, 535 new schools will be created across the country, based on the innovative designs developed by the New Schools Corporation. The President met with major business leaders at Camp David on Friday to lay the groundwork for this initiative.

America 2000 builds on the creative activism already taking place in the private sector. Eugene Lang set the standard for education reformers when he promised the students at PS 121 in New York that he would send each and every one of them to college if they kept their grades up. Since then, some 40,000 students nationwide have received similar offers of support from others following Eugene Lang's example.

And in Louisiana, Pat Taylor has proposed that the State guarantee a college education to all its citizens who can gain admission. It's an idea whose time has come.

The United States spends more than \$400 billion a year on education. That's \$5,600 per student, up more than 35% in real terms during the last decade—more than any other country on earth. Yet we rank 14th in academic achievement. The massive funding increases since the *Nation at Risk* report have not stopped SAT

scores from dropping for the fourth year in a row. If the American workforce of the 21st Century is to meet its full potential, there's no question we have to do much better.

One thing that will *not* work is a brass knuckles approach to mobilizing the business community's support. Senator Edward Kennedy and Congressman Richard Gephardt have introduced a new bill which would compel business to provide workforce training and foist a stiff tax on the those companies which decline to follow orders.

American business already understands the need to retrain workers, and billions are being spent for that purpose. Workforce improvement is a hot topic for industry. This conference is proof. Bill Kolberg has said that "The last frontier of international competition is the workforce."

What businesses need are tax incentives to encourage them along a path they are already taking. For example, accounting regulations and tax rules should be changed to make it easier for businesses to invest in their workers. And it *is* an investment ... an investment in the most important kind of capital—human capital.

We live in a new and different kind of world. The rules of the game are being rewritten with every passing day, with every passing revolution. Business and government will have to quickly adapt—and focusing new attention on human capital is just one example.

It is sometimes easy to forget how much things have already changed. Think back just ten years. When Ronald Reagan and George Bush came into office, Communism was advancing on every front. The Third World was mesmerized by Soviet power and caught up in the myth of centralized planning. But with stunning rapidity, the American economic miracle helped stimulate a crisis in the Communist system and catalyze a worldwide democratic capitalist revolution.

There was a time—not long ago in the history of freedom—when democracy was still seen as a bold but fragile experiment.

And indeed democracy faced many challenges. Threats from foreign shores and threats from within. It's success was never assured. By its very nature, the democratic dream was fated to succeed or fail through the choices made by free men and women.

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Yet every democratic nation knows it is impelled by a force greater than itself ... drawn inevitably toward fulfilling some final purpose, not for itself but for all humanity.

In the bleak winter of 1861, President-elect Abraham Lincoln stopped at Independence Hall on his way to Washington for the inauguration, having left Springfield, Illinois, never to return. The democratic experiment in America was in grave peril ... but in this place, Lincoln was serene, even hopeful. He said:

“I have never had a feeling politically that did not spring from the Declaration of Independence ... [It] gave promise that in due time the weights should be lifted from the shoulders of all men, and that *all* should have an equal chance.”

And democracy *has* survived. It has come through the most brutal century in human experience, not weakened by its ordeal but grown strong. And America has found both power and prosperity in the struggle.

One hundred and twenty-six years after the Emancipation Proclamation, we have conquered the shame of slavery and segregation. And having done so, we have preserved for the world the luster of the American example.

Yet we cannot, in all good conscience, claim that America has totally fulfilled its mission. Not when the American Dream remains out of reach for too many low-income Americans. This is our next great challenge: to expand the depth and reach of American prosperity ... to make our Nation an example for all the world in what President Bush has called a Pax Universalis.

The President believes we must inaugurate a new era of boundless economic opportunity and growth for all people. It is time for a new round of 1981-style tax rate cuts on capital and labor—new incentives for risk-taking and entrepreneurial growth, this time paying particular attention to the classic American formula for escaping poverty. We must commit ourselves to waging and winning a New War on Poverty guided by the logic of marketplace incentives which strengthen the link between effort and reward.

Millions of Americans, including many of our parents and grandparents, escaped poverty by acquiring assets and property, starting a business, owning a home. We must open up the flow of entrepreneurial

venture capital which was locked up by the liberal Democrats' huge 65% increase in the capital gains tax in 1986.

President Bush's call for a dramatic reduction in the capital gains tax has highlighted the stark differences between Democratic and Republican economic philosophies. The Democrats would respond to sluggish economic growth by spending billions on unemployment benefits and soaking the rich. President Bush has rightly said we must respond instead by creating millions of new jobs. But you can't create employees without first creating employers.

The tax on capital is a tax on the ability of America to create new wealth—it's a tax on the American Dream, and it's driven up the cost of capital to where we have what Jesse Jackson called a “capitalistic economy with no capital.” I thought he was kidding, but he's right.

But his Democratic Party sees the capital gains tax as just another tax—one they wrongly think falls only on the wealthy. What President Bush is saying is that the capital gains tax is fundamentally different. More than all other taxes, it is a tax on innovation, a tax on risk-taking, a tax on the entrepreneur, and thus a tax on the poor, the jobless, the future potential of the Nation.

By boosting the tax on capital gains to one of the highest levels in American history, as we did in 1986, we locked up billions of dollars of potential investment capital in safe, blue chip, mature investments. Entrepreneurial capitalism cannot survive if everyone invests only in front-runners and no-risk-attached sure bets. If that's the way our tax code continues to work, we will only muddle along at 1% or 2% growth, when in reality we need a decade of 4% to 5% growth and a doubling of our GNP by 1999. A \$10 trillion economy gives us another \$250 billion in revenues with which to rebuild transportation and infrastructure, help educate our children, and clean up the air and water.

In recent testimony before the House Ways and Means Committee, Michael Boskin, Chairman of the President's Council of Economic Advisors, said:

“Reducing the tax rate on capital gains could give a needed boost to the economy and improve long-term growth prospects. It would encourage entrepreneurial activity, which

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creates new products, and new methods of production, which in turn generates new jobs.”

From 1978 to 1986, when the capital gains tax was incrementally reduced from 49% to 20%, investment seed capital—the lifeblood of the entrepreneur—surged from \$250 million to \$22.5 billion—almost a hundred-fold increase. At the same time, Federal revenues from the capital gains tax nearly quadrupled from the resulting jump in economic activity.

Moreover, the number of black-owned businesses soared during this golden era of venture capital, increasing by more than one-third in just four years. Blacks, Hispanics, and other minorities have the most to gain from a capital gains tax cut since they have most of their capital gains ahead of them. Today, blacks represent more than 12% of the population, but own only one-half of 1% of the Nation’s capital stock.

Capitalism without any capital is a “sham.” The current “credit crunch” is causing a “capital formation crunch” which is preventing many entrepreneurs from acquiring the seed corn they need to start new businesses. Trying to open up the stock of capital so low-income entrepreneurs and at-risk businesses can get venture capital is what lies at the heart of President Bush’s attempts to get Congress to cut the capital gains tax and eliminate it in urban pockets of poverty.

In the worst urban and rural neighborhoods, there frankly is no earthly reason why there should be any capital gains tax at all. That’s why President Bush has asked Congress to immediately authorize 50 Enterprise Zones all across America, in which capital gains taxes would cease to exist and a range of other Federal tax incentives would be offered.

As Professor John Sibley Butler of the University of Texas will show in his forthcoming book on black entrepreneurship, where blacks have developed an entrepreneurial tradition, they have escaped poverty in large numbers. In Durham, North Carolina, where there is a long history of black entrepreneurship, Dr. Butler found that 40,000 blacks control more wealth than one million blacks in Chicago.

That should come as no big surprise. That’s a classic American story—a classic human story.

In his revolutionary new papal encyclical, “Centesimus Annus,” Pope John Paul II writes, “A person who is deprived of something he can call ‘his own’

and of the possibility of earning a living through his own initiative comes to depend on the social machine and on those who control it.” And having grown up in Communist Poland, this Pope speaks from personal experience.

We must help flood the inner cities with new capital and new opportunities. We must also introduce private property ownership into the enclaves of urban socialism. Some of the most poverty-stricken neighborhoods in America were built and paid for by the U.S. Government. Public housing residents are kept isolated from the power and private property opportunities of our macro and mainstream economy. President Bush intends, for the first time in history, to give public housing residents the right to own their own homes. This is the same spirit of homesteading used by President Lincoln in 1862 when he opened up millions of acres of government land to the poor. His Homestead Act became one of the most successful anti-poverty measures in American history.

The President sought \$855 million in fiscal year 1992 to create 30,000 new low-income homeowners and start 60,000 more on the same path. Congress approved less than half that amount, instead allocating new funds to failed status quo programs.

The liberal Left is fighting President Bush’s pro-growth plan to reduce the cost of capital and promote private property ownership as though it were an attack on God, country, and the Constitution. They have called forth their vast reserve arsenal of class warfare rhetoric and brought the politics of envy out of mothballs.

A new generation of liberal Left doomsayers are describing the coming American apocalypse, like so many Rip Van Winkles awakened from a Carter-era nap.

Robert Reich of Harvard, the Left’s new economic guru, is typical. In his book, *The Work of Nations*, he writes of a rising new class of so-called “symbolic analysts”—what we lesser mortals might call “white collar” workers—like stock brokers, scientists, and corporate executives. In the future, Reich expects the symbolic analysts to comprise an elite group of skilled workers living at the expense of the poor.

Here is Robert Reich’s America: “The townships and urban enclaves where [the symbolic analysts]

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reside, and the symbolic-analytic zones where they work, will bear no resemblance to the rest of America; nor will there be any direct connections between the two. America's poorest citizens, meanwhile, will be isolated within their own enclaves of urban and rural desperation; an ever-larger proportion of their young men will fill the nation's prisons."

Reich's fresh and provocative solution?

Two trillion dollars in new Federal spending for education, job training, and new roads and bridges—all of it funneled through an ever-growing Federal bureaucracy.

And Reich falls into the same old trap. By raising the top marginal tax rates back to their 1977 level (he seems to still have a warm place in his heart for the Carter years), he says we'll pick up \$93 billion in new annual revenues. This assumes, in the best tradition of static modeling, that the economy will keep growing as if nothing had changed. As for the rest of the \$2 trillion ... well, that part's easy. Just cut defense by 50 percent.

This is the voice of so-called "resurgent liberalism," mind you. This is the best they have to offer. But Reich's "Twilight in America" ideas promise only to make the 1990s look like the 1970s, complete with stagflation, low productivity, and high taxes. And it will make America poor, not rich. You can't help the poor when our Nation is getting poorer.

Others on the Left, like the *New Republic's* economics editor Robert Kuttner, would have us return to a "more assertive" trade policy. Translation: they want to slam the door on booming American exports by starting a trade war. But America and the world's future lies in quite another direction.

With the whole world now coming to recognize the power of private property and free enterprise, why should our free markets end at the water's edge? The maze of tariffs and quotas which obstruct the free flow of capital across borders and oceans are an anachronistic throwback to the zero-sum, mercantilist logic of the past.

President Bush has committed the United States to creating a North American Free Trade Zone, the largest

free-trading community on earth, to build on Mexico's historic economic reforms. President Salinas and his Finance Minister, Pedro Aspe, have slashed marginal tax rates, cut tariffs, and stabilized the peso, making Mexico a leader in the booming Latin American market. When established, this Free Trade Zone will encompass more than 360 million people and about \$7 trillion in annual output.

Since 1986, when Mexico began opening up its economy, U.S. exports to Mexico have more than doubled to over \$28 billion per year. A study by the accounting firm of Peat, Marwick, shows free trade with Mexico adding at least 61,000 new jobs to the U.S. economy.

The critics of free trade view the international marketplace as a battleground in which nations vie for a fixed supply of global wealth. But with free nations practicing free enterprise in free markets, there is no limit to the amount of wealth that can be created.

Amid today's worldwide democratic capitalist revolution, America at last has its chance to lead the emerging democracies of East and West into a new millennium of unbounded freedom. After a century of struggle against totalitarian regimes of every imaginable form—Fascism, Communism, Apartheidism—democracy is no longer a fragile American experiment. It is a powerful force linking nations together in a vast global enterprise.

Americans have always pledged their lives, their fortunes, and their sacred honor in the defense of freedom. Now is not the time to turn back to the failed politics of limits and timid aspirations. We must seize this opportunity to complete the democratic revolution begun in 1776.

Now is the time to follow the logic and heed the results of the Reagan Revolution—to help President Bush unlock our Nation's greatest source of wealth, the American entrepreneur, and unleash our greatest asset, the American people.

Thank you very much, and God Bless America.