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Kemp (HUD - 1990)

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Thought you might be interested in the attached.

Secretary
JACK KEMP
U. S. Department of Housing and Urban Development
Washington, D.C. 20410
(202) 708-0417

Republican State Governors Speech

The Purpose of a Great Party

Economic Opportunity and Empowerment:
The Bush Administration's Domestic Policy Vision

A great political party must have a great purpose. Abraham Lincoln helped found the Republican party upon the greatest idea in all human history, the idea of the Declaration of Independence: equal rights, equal opportunity and equal access to property for every human being. That cause, which extends from our party's founding days one hundred and forty years ago, must remain the vital center for Republicans if our party is going to lead American democracy into a brilliant new century.

I was thrilled when President Bush invoked these Republican roots at the ceremony for our new housing bill. Moments before he signed the law to empower public housing residents with the opportunity to manage and own their own housing, he recalled Lincoln's Homestead Act of 1862, which gave 160 acres to any family who wanted to make a go of it in the wilderness.

Lincoln's homestead Act of 1862, President Bush reminded the East Room audience, was "one of the most successful endeavors in American history -- causing the great land rush to the Wild West -- and forming the vision for a new homesteading program in urban American today ... Because Abraham Lincoln's Homestead Act empowered people," he said, "it freed people from the burden of poverty, it freed them to control their own destinies, to create their own opportunities, and to live the vision of the American dream."

This vision is not unique to Americans. In the first decade of the twentieth century, Pyotr Stolypin, the Russian Premier, distributed millions of acres of unused land to the landless, impoverished, restless peasants. Stolypin's goal -- so similar to Lincoln's -- was, in his own words, "to offer the peasant a way out of poverty to enable every hardworking tiller of the soil to farm on his own account, applying his own labor without encroaching on the rights of others."

By 1914, over four million persons moved to Siberia -- more than in the three hundred previous years. All Russia prospered as Siberia went from a deserted wasteland to a bountiful land full of thriving farms and flourishing villages. "After three years," writes Aleksandr Solzhenitsyn, "these people could scarcely believe that they had once lived in penury, and wondered why they had not set out for Siberia long ago."

The radical reform movment in Russia today, lead by such democratic capitalists as Yeltsin, Popov, and Shatalin, is beginning to recognize the value of private property and actually give people title to their own apartments and homes. Imagine -- Stolypin's pre-Soviet reform movement has become the predicate for post-Soviet perestroika!

Whether in Russian Siberia, the American West, or the urban ghettoes, the idea of opening access to property and economic opportunity, giving people a chance to better their lives and achieve their dreams will work anywhere, anytime it is tried.

Yet, as the world moves to democratic freedom, it's ironic that some here in our own country want to move in the opposite direction. Senators Bill Bradley and Mitchell say that their proudest moment was defeating the President's capital gains tax reductions. Some Democrats seem to be more concerned that some people in America are getting rich, than they are that poor people are falling deeper into poverty as a result of their anti-growth policies.

President Bush has followed the best Lincolnian tradition when he called for a lower capital gains tax for the nation and elimination of the capital gains tax in the pockets of poverty in urban and rural America we call Enterprise Zones.

Republicans must propose the capital gains tax cut again. And this time we've got to make it even deeper and more dramatic to dramatize our strong differences with the Democratic party over growth versus redistribution.

Some are telling us that the Democrats will beat Republicans mercilessly with the dreaded "fairness" argument. I say bring it on.

As Lincoln taught us, fairness does not tear down the rich, it forges stronger links between individual human effort and reward; it does not quarrel about dividing old wealth, it concentrates on creating new wealth; it doesn't recognize limits to growth and life as a static, zero sum condition, it expands opportunities for all people of any color, condition, or background to reach their God-given potential.

Take the Democrat notion of "fairness" as equality of result and match it against the Republican principle of equality of opportunity. I have no doubt that Republicans will be overwhelmingly elected today just as Lincoln's party won virtually every election from 1860 to 1932 by drawing a clear dividing line over fairness!

But we've got to do a better job not just describing but advancing our principles. The capital gains tax cut is truly fair because of what it will do for the poor, not for the rich.

Contrary to the Democrats' hysterical claims, cutting the capital gains tax is an overwhelming incentive for small businessmen and women -- especially in our inner cities and among minority entrepreneurs -- who want the opportunity to become rich.

Between 1977 and 1982, when the Steiger Amendment cut the capital gains tax from 49 percent to 28 percent, the number of black-owned businesses exploded by nearly 50 percent -- one of the largest gains on record. We need to at least double the number of minority-owned businesses in the next few years, and it can't be done under the current capital gains tax laws.

The charge that the capital gains tax cut helps the rich is based entirely on static revenue estimates. The truth is that the cpaital gains tax is largely a voluntary tax for the wealthy. They can avoid paying it simply by not selling their assets. By lowering the capital gains tax, upper income earners will be more willing to sell their assets and realize their accumulated gains. As such, the government will collect far more taxes from the wealthy and lift the tax burden proportionately from the poor and working Americans.

If revenue estimators took account of this "unlocking effect" fully, the government would gain revenue from the cutting capital gains in the short run, but lose in the long run since unlocking is only a one-time phenomenon. But there is also a secondary -- long term affect -- of cutting capital gains and that is that it will increase the value of assets by enhancing their after tax returns. The economy itself will grow stronger as a result of the increased incentives for purchasing income producing assets, from stocks and bonds, to farms, factories, and real estate.

That's why the capital gains tax cut will substantially reduce the costs of the S & L bailout -- it increases the demand for assets, raises their price, and especially stimulates the real estate and financial sectors of the economy, the sectors which are experiencing some of the greatest problems in this downturn.

Ironically, the "locking up" of assets and the hindering of economic growth caused by capital gains taxes reaching up to 75% after inflation are actually lessening the tax burden on the rich and pushing the tax burden further onto those of low and moderate incomes. That's why some rightly say that if you want to "soak the rich" then you've got to lower capital gains taxes.

Not surprisingly, the revenue estimators who tell us that capital gains tax cuts will help the rich and lose revenues are the same ones who told us that the Reagan/Bush tax cut of the eighties was a give away to the rich. We now know that they were wrong. As tax rates were cut, the rich pulled out of tax loopholes, tax shelters, and tax exempt bonds and put their money into new taxable investments.

The result: the rich shouldered a higher burden of the total tax; the poor and middle class less. According to recent IRS statistics, between 1981 and 1987, the tax burden on the top 1% of taxpayers shot up by nearly 40%; the top 5% pay a 23% greater share; and the top 10% of income earners saw their share jump by over 15%. Meanwhile, the lower half of income earners saw their total tax burden fall by about 19%, measured as a share of all taxes paid.

Bogged down in their distorted notion of fairness, the Democratic leadership ignores the ultimate unfairness, denying the American economy the oxygen its needs to avoid or shorten a recession. Minorities and the poor lose the most from the liberal left's anti-growth campaign. Even economist Allen Sinai -- never a strong proponent of tax cuts -- has concluded that cutting the capital gains tax would riase federl revenue by $30-40 billion between 1990 and 1995, increase GNP by almost 3% or over $150 billion, create 2.5 million new jobs, and boost business capital spending by 1.3%.

The fact that the media and the conventional wisdom have it exactly backward is a stunning revelation that Republicans must not only do a better job defining fairness, but also a more aggressive job repudiating the Democrat's revenue estimating "black box." As long as Democrat-dominated Committees control the black box defining revenue and distributional consequences of tax changes, "our" tax reductions will be defined as costly and unfair and "their" special interest programs and budget gimmicks will be defined as equitable and beneficial to the Treasury.

In the new year, priority number one should be to demonstrate that their model is at odds with how the world really works. The results of the 1981 tax cuts and capital gains tax reductions of 1978 and 1981 convincingly prove the Democrats' model is a house built on soft and shifting sands. It is vulnerable to attack, but it will collapse only if the truth is made known.

Stolypin, one of my heroes for American as well as Russian reform, said that it was not enough to have the right ideas. One must have the strength of purpose to make them a reality. The debate over cutting capital gains centers around our party's most fundamental purpose. We must elevate this debate to a higher level, so that all people may know what we stand for and our determination to carry our principles to reality.

More than the poor are counting on the capital gains tax cut. States and localities have an enormous stake in this capital gains debate; and we need your help to get this tax cut at the top of this party's national agenda and passed through Congress.

It's no secret that the states experiencing the greatest budget difficulties and electoral discontent are those which passed major new tax increases. Massachusetts, New York, and New Jersey, just to name three, are obvious and dramatic demonstrations that popular tax revolt is alive and well. Governor Jim Florio carried on a "tax the rich" campaign and created a backlash that nearly caused Senator Bill Bradley to lose his reelection.

Unfortunately, so many States have raised taxes recently that a national recession may be caused by State as much as federal policy developments.

But Washington itself could help drive every state into budget deficit and tax increases if we don't pass this capital gains tax reduction and other important economic stimulus measures. If the capital gains tax is cut, not only would the federal government reap a 5-year $20 billion revenue windfall, but states and localities will also reap revenue windfalls, since the new asset-realizations pass through state and local "tax gates" as well as federal ones.

The key to bringing state and local budgets back into the black is to restore a sound, national economy. Cutting the capital gains tax is the most powerful weapon I know to restore strong non-inflationary economic growth to every part of this country.

This is not an inside-the-beltway squabble. There is a struggle going on here for the heart and soul of the Republican party, and it can be stated simply: Are we going to be the party of economic growth, expanding opportunity, entrepreneurial capitalism, and free market solutions to poverty? Or are we going to be the status quo party that regards all wealth as fixed, static, and immutable?

The truth is that the 1980s were not built on credit cards, but on record private sector investment in plant, equipment, jobs, and new businesses. The President's policies of tax reduction, sound money, and less regulation generated the strongest peacetime expansion on record, created over 21 million new jobs during the past eight years, launched over 4 million new businesses, and generated record increases in real after tax income for all income groups and all sectors of our society. While the Nation's gross national produce grew by 26.3 percent between 1983 and 1989, federal tax revenues expanded by 35.7%, twice as fast as they did in the 1970's.

If America's economy is weakening, it is only because it is being pummeled with higher taxes, stifling environmental restrictions, and financial regulatory terrorism.

The Republican party's legacy of economic expansion is not the only thing under attack. Empowerment ideas to fight poverty are being challenged as new and untried. But these ideas are no more new than Lincoln's homestead act or Stolypin's land privatization was new. There really is no such thing as the "New Paradigm." There's only the old paradigm of democratic capitalism -- the ideas of private property, free markets, and individual incentive.

George Bush said it well, "we know what works ... freedom works." I think it was audacious for President Bush to say that -- one of this Administration's defining moments.

I believe with all my heart that a Lincoln of our day would be deeply concerned about the extent of poverty and getting our econmy moving again. He would want to place poverty, homelessness, and despair on the same "course of ultimate extinction" that he proposed for slavery in his own time.

I'm proud the President has appointed me to head up his Economic Opportunity and Empowerment Task Force. He charged our Task Force with coordinating and outlining a far-reaching agenda to fight poverty using the principles of markets, choice, and incentive as the most powerful resources at our command.

I want to recommend some ideas that I would put forward for consideration in that agenda.

First, we've got to create growth and jobs. The debate over getting this economy moving again is just getting started. In my view, we need tax rate reductions on labor, capital, and the family to spark a praire fire of new job creation and entrepreneurial risktaking all across America, especially in America's inner cities. Cutting capital gains tax for the nation, and elmininating them in distressed areas is crucial. But so is reducing the cost of labor and raising a family through complementary labor and family-based tax incentives.

Second, we've got to expand access to homeownership and property, and create more affordable housing. While HOPE has been authorized, we've got to get funding in 1991 and 1992. If we can get that funding poor people will be give a chance to own more than 2 million government housing units -- an estimated $100 billion in public property. More than 250 housing projects will be in resident management by the end of 1992, and we are targeting more than 1 million new first-time homeowenrs by 1992 through all programs of the Department of Housing and Urban Development, including HOPE.

Third, we've got to improve the quality of education and job training. Our nation's primary and secondary schools have been the traditional route for enterprising poor people to move up and out of poverty. Yet, far too often, these inner city schools are providing disgracefully poor education. I believe the Republican party should champion quality education by expanding educational choice. Along with such champions as Wisconsin's Polly Williams and Detroit Councilman Keith Butler, I think that choice expanding options like magnet schools, tuition tax credits, and educational vouchers can help open up new paths of opportunity to our nations poor.

Fourth, we must help welfare recipients move to economic independence by reducing effective tax rates on persons trying to leave welfare and take jobs. The woman on welfare, with a couple of children, struggling to make it, faces the highest marginal income tax in the United States of America, higher than any man or woman in this room. Whether she takes a job at McDonald's or McDonnell Doughlas, the government takes away the welfare and taxes her income. I believe we should eliminate the tax on the first two, three, or four rungs of the ladder so that the incentive for work is greater than the reward for not working.

Fifth, we must strengthen the family. Every social and economic thinker today recognizes that one-parent families with children are far more likely to be in poverty, remain in poverty, and perpetuate poverty, than families in which both a father and mother are present. Part of the reason for the upsurge in family breakup is escalating taxation of the intact family. Adjusted for the rise of inflation and incomes since World War II, the personal and children's exemption would have to be over $6,000, rather than only $2,000 as it is today. I think we should raise that exemption to give families more after-tax income in order to reduce financial pressures, to help families keep more of their own resources to take care of their children, and to help them break free from government assistance.

These are only some beginning ideas at fighting a war on poverty. By serving our country first, our party will become the party of all America. The Party that awakens, liberates, and emancipates the talent of people who've been left out and left behind. No one said it better than Lincoln. On the field of battle at Gettysburg, he pointed to the cause: "government by the people, for the people, and of the people." That's a great cause supremetly worthy of a great Party and a noble nation.

Thank you very much.

178915

personal

THE CHIEF of STAFF
has seen

Dear John

I guess this is the last time I can ever give this speech! "a soldier in the army"

— page 8 —

J.K.

The Secretary of Housing and Urban Development

Remarks Prepared for Delivery by

Jack Kemp

at the

FEDERAL CITY COUNCIL ANNUAL MEETING

WASHINGTON, D.C.

SEPTEMBER 17, 1990

"A Progressive-Conservative Prescription

for a New War on Poverty"

In the 1980's, the American economy experienced an unprecedented expansion, generated over 21 million new jobs -- more jobs than Europe, Canada and Japan combined -- and created more than 4 million new business enterprises. While the Nation's gross national product grew by 26.3 percent between 1983 and 1989, Federal tax revenues expanded by 35.7 percent, twice as fast as they did in the 1970s. Federal income taxes paid by the top 1 percent of taxpayers surged by over 80 percent - from $51 billion in 1981 to $92 billion in 1987.

The Reagan-Bush Administration rediscovered the classical prescription for non-inflationary economic growth; i.e. sound money, income tax rate reductions across the board, and reductions in the growth of government spending and regulation. As a result, the entire world was lifted to a higher vision of what democratic capitalism could achieve in creating wealth and opportunity for people. Indeed, by decade's end, the leader of the socialist world -- the Soviet Empire -- had become an economic basketcase. The intellectual and political case for socialism collapsed.

As we enter a much tougher economic climate and experience slower growth, the answer is not to choke off expansion with higher taxes, but to stimulate the economy with President Bush's cut in the capital gains tax rate. Cutting the capital gains rate will free up investment capital for entrepreneurship, small businesses, and new job creation, generate billions of dollars of revenues to State and Federal treasuries, and add value to the financial assets of our Nation.

The creation of new businesses, the unleashing of innovative ideas invigorates economies and markets. Economic growth in the 1980s confirmed that real wealth comes not from physical resources, but human beings; not from mere things, but from the ideas, talents, and efforts of our people. That's why the President and some courageous Republican legislators like Senator Bob Kasten of Wisconsin, Senator Connie Mack of Florida, House GOP Whip Newt Gingrich, and Congressman Vin Weber of Minnesota want to add capital and labor based incentives to the tax code, such as the capital gains tax cut, Enterprise Zones, expanded IRAs, and a higher earned income tax credit for the working poor.

While the 1980's was a period of unprecedented economic expansion, parts of our Nation and some of our people have been left behind, or worse left out. Success has not been the whole story of the 1980's ... grinding poverty and homelessness, violent crime and drug abuse, the growing number of broken families and mothers on welfare. These are the deeply disturbing, even alarming problems, that signal ongoing deterioration in many communities, especially minority communities.

In 1984, New York's Governor Mario Cuomo was cheered at the Democratic Convention with his tale of America as two cities, one rich and one poor, permanently divided into two classes. But with all due respect to his great rhetoric, the Governor got it wrong. America is not divided into two static classes with redistribution and envy the only answer. Our Nation is divided into two economies, one democratic capitalist, based on private property; the other is near socialist, government-directed, and based on public ownership of property.

Our macro and mainstream economy is market-oriented, entrepreneurial, incentivized for working families; it rewards work, investment, saving and human output.

The second economy, all too often in our inner cities, is similar in many ways to Eastern European, or Third World "socialist" economies. It is predicated on rules, regulation, and disincentives almost totally opposite to the way people are treated in our mainstream economy. It has built barriers and disincentives to productive human and social activity, almost eliminated economic incentives and rewards, and has linked effort and reward in perverse and counterproductive ways.

This second economy almost guarantees poverty and dependency:

-- it rewards welfare and unemployment at a higher level than working and productivity;

-- it taxes and regulates the entrepreneur who wants to succeed in the above ground capitalistic system, while rewarding the underground or gray economy of illicit capitalism;

-- it rewards people who stay in public housing more than those who want to move up and out into private homeownership;

-- it rewards the family that breaks up rather than the family that stays together;

-- it encourages debt, borrowing, and spending more than saving, investing, and risk-taking.

-- But worst of all, it weakens and in some cases destroys the link between effort and reward.

The irony is that the first war on poverty and much of our welfare system was created in order to help the poor, to alleviate suffering, and provide a basic social safety net. But despite the noble intent, it has lead to dependency, welfare bureaucracy, and near pathological social conditions for some. Our country is now reaping this whirlwind in terms of abandoned children, homeless women and children, unemployed fathers, and crack addicted babies ... despair not hope, poverty not opportunity.

Examples abound of how 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, suspended it ... and traumatized her life.

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. Incidently, 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.

The startling fact in America today is that the highest marginal tax rates are not paid by the affluent, but by welfare mothers or unemployed fathers who want to take a job. In most cities, a welfare mother must earn $15,000-$18,000 in wages to equal the average 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 an hour, would net minus 45 cents per hour. She would lose about $4 a day after taking into account lost government benefits, taxes, and work-related expenses such as transportation and child care.

Eugene Lange, 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 PS 121 elementary school in East Harlem and told children that if they stayed in school, got good grades, stayed drug free, and qualified, that 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 2 years of college.

Public housing is another example of government policies perpetuating a poverty trap with disincentives to work and strong families. Because public housing authorities charge rents based entirely on a tenant's income, those rents actually could jump by 600 percent or more if the tenant gets married or takes a job. In some cases, rents exceed those charged in the private sector for similar dwellings.

We're instituting a new policy at HUD that sets "ceiling" rents at no higher than the market level. If a tenant takes a job or gets married, the rent increase will be put into an escrow or savings account, which will be released to the family when they leave public housing to pay, for example, for a downpayment on their first home. We want public housing -- indeed all public assistance -- to become a platform for self-sufficiency, not a trap of dependency. HUD used to give awards for public housing residents who stayed in public housing the longest. We stopped that. Now, we're offering incentives to public housing tenants who move up and out into the private sector.

The heavily-regulated U.S. housing market is another example of government-created scarcity. Rent controls, exclusive zoning, and building codes have crippled low income rental housing markets in many cities. Ironically, rent controls mostly help the wealthy and hurt the poor. The New York Times recently editorialized that "Perversely, many poor families are the harshest losers from rent controls .... rent control has benefited the lucky, not the needy."

The real effect of rent control is to subsidize many upper- and middle-income families who pay rents much lower than they would without regulation. Because the incentive is for these families to stay in rent controlled apartments, these homes are not available for those with lower incomes. According to the Times, "some families in the highest income groups became even richer by buying apartments they rented, reselling them later at 10 and 15 times what they paid." Affordable housing is a real challenge, and we in the Administration are taking steps to solve it. State and local governments must not make our task more difficult by imposing counterproductive, market-destroying regulations.

Another glaring example of counterproductive government policies is how HUD subsidizes vacant public housing. It has been costing the taxpayer over $1,300 per unit to subsidize vacant public housing often used as crack houses for gangs and drug pushers. We've started a policy called Operation Occupancy to subsidize only those units actually occupied by low income people. But this important victory isn't won yet. Some on the joint House-Senate Conference on the Housing bill are trying to overturn our policy.

The good news is: government policies can change; more importantly, people do respond to rewards. Productive human effort can be promoted; behavior can be modified or altered; work effort can be unleashed. Entrepreneurial talent is alive in the inner city. President Bush said making this happen means "giving people - working people, poor people, all our citizens -- control over their own lives. It means a commitment to civil rights and economic opportunity for every American."

The Bush Administration is pursuing and expanding a national agenda to help low income people combat poverty and despair. In his recent speech to the joint session of Congress, President Bush mentioned part of this agenda -- and these were the only domestic goals he spoke of not directly affected by the Persian Gulf Crisis.

First, President Bush wants to cut the capital gains tax not to help the rich but to help the poor get rich or richer in terms of opportunity. As Abraham Lincoln 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 in life. I am not ashamed to confess that twenty-five years ago I was a hired laborer, mauling rails, at work on a flatboat -- just what might happen to any man's son! I want every man to have the chance -- and I believe a black man is entitled to it -- in which he can better his condition -- when he may look forward and hope to be a hired laborer this year and next, work for himself afterward, and finally hire men to work for him. That is the true system."

In the spirit of Lincoln's vision, President Bush has asked Congress to cut the capital gains tax rate to 15 percent for the Nation, and establish Enterprise Zones, as a national policy to generate jobs, opportunities, and minority enterprise in our Nation's most distressed communities.

I believe we should set a goal of doubling or tripling the number of minority business enterprises over the next decade. Earl Graves of Black Enterprise magazine has pointed out that black-owned firms are still just 3 percent of all U.S. companies, with only 1 percent of gross receipts. This is not just a tragedy for the Afro-American community, but for all minorities. Worst of all, it hurts all of us to have so many of our people lacking access to capital, property, and resources.

Cutting the capital gains tax rate has worked before and it can work again to powerfully stimulate minority businesses and job creation. In 1978, the Steiger amendment slashed the capital gains tax from more than 50 percent to 28 percent; in 1982, the Reagan/Bush tax cuts began to take effect, including our cut in capital gains to 20 percent. What happened?

Between 1977 and 1982, the number of black-owned businesses increased by 33 percent, and new Census Bureau figures show that, between 1982 and 1987, the number of black-owned companies jumped 38 percent -- growing two-and-a-half times faster than all new business formations in the same period.

While the 1986 tax reform lowered income tax rates across the board, Democratic leaders in Congress extracted a high price by demanding a 65 percent increase in the maximum tax rate on capital gains -- one of the largest increases in U.S. history!

Considering inflation, the real capital gains tax rate, according to a study by economist David Goldman, easily may be 75 percent or more. This punitive tax is staggering the entrepreneurial sector. Columnist Warren Brookes estimates that investment, which was growing at more than 7 percent annually before the tax hike, has slowed by 50 percent, and new business formation is actually declining for the first time in 10 years.

No one is hurt more by this than the poor and minorities who must have access to the seed capital that a capital gains tax cut would unleash. In the Journal report, Harry Brooks, CEO of a large black-owned business in California, took note of a shortage of capital, saying: "as you start growing, you use cash at an accelerated pace. If you don't have some semblance of deep pockets, you can be profitable and still go out of business."

The resistence of capital gains tax reduction by Congressional leaders is counterproductive to our national goals of winning a war against poverty. The capital gains tax is not a tax on the rich, it's a tax on the creation of wealth. If the tax code taxes wealth at such a high rate that the wealth disappears, jobs and small business creation will be destroyed. As jobs disappear, the poor will suffer the most. To make it worthwhile for people to innovate, to risk, and to create wealth, we've got to set a lower tax rate or risk income than ordinary income.

Second on the President's agenda is resident management and urban homesteading in public housing to empower tenants to achieve control of their housing communities and their dreams of homeownership.

Under President Bush, we've recently set a goal of creating more than 1 million new homeowners by 1992 through FHA and our HOPE initiative, Homeownership and Opportunity for People Everywhere, which has passed the House and Senate and goes to conference this week and next.

Post 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 ... it is the assets themselves that create this effect, as opposed to just educational programs or exhortations toward better values."

Raspberry is right. Not only is homeownership and tenant empowerment a practical thing to do, it's a moral imperative, in our view.

Third, in order to create greater choice and independence, housing rental vouchers should be significantly increased and expanded. Low income families should have greater opportunity to live where they want and better access to affordable housing.

Fourth, tax reform is needed now to help remove more low income families from the tax rolls and dramatically increase the net income of welfare mothers and unemployed fathers who get jobs. In 1948, a median-income family of four paid almost no income taxes, and only $30 a year in direct Social Security taxes. This year, the same family's tax burden is over $6,000. To be as sensitive to families now, the tax code would have to set the personal exemption for the costs of nurturing children at well over $6,000 today.

Fifth, it is essential to expand the earned income tax credit, create up to a $6,000 exemption for children under 16, and pass the President's Child Care tax credit to roll back the huge tax burden on low income families and unemployed parents. These can be paid for, in part, by the additional revenues gained by cutting the capital gains tax rate to 15 percent, as Bob Kasten, Connie Mack, Newt Gingrich, and Vin Weber have all said. The capital gains tax cut would expand tax revenues at all levels of government by spurring new economic growth.

Sixth, for homeless people, the Administration's new Shelter Plus Care plan will expand community-based mental health facilities, drug abuse treatment, job training, and day care. Shelter and support services are the key to helping homeless Americans re-enter the mainstream economy. If Congress passes HUD's budget request for 1991, including the Shelter Plus Care initiative, it will represent a 62 percent increase in homeless assistance over 1990 and nearly 170 percent increase from 1989.

Seventh, to enhance education and opportunity, we must expand true choice and competition through magnet schools, education vouchers, tuition tax credits, and other choice-enhancing policies. Merit -- plus champions like State Representative Polly Williams in Wisconsin and Council Member Keith Butler in Detroit -- has rescued this idea from the partisan attacks of the past. Empowering parents with choice over the education of their children deserves strong consideration.

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.

Today's debate over how to help low income people is a debate between those who believe that people are a drain on resources and those who see that people <u>are</u> our greatest resource. It is a debate pitting hope and opportunity against the politics of envy. I believe that our greatest assets are not in the wealth we see around us but the potential that is unseen -- minds yet to be educated, 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 ... and we've got alot to do.

I've travelled to hundreds of distressed communities and I know entrepreneurial capitalism and empowerment can work to create the wealth and opportunities of the future. As we approach the 21st century, let us resolve to make our legacy a successful war against poverty. Let's unleash the greatest wealth our Nation has, the pent up talents and potential of our people.

THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF has seen JAN 27 1990

January 22, 1990

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: DAVID Q. BATES

SUBJECT: HUD Actions Against Management of the Passaic, New Jersey Housing Authority

Attached is a draft press release that HUD intends to make public today announcing suspension of several individuals holding top management positions with the Passaic, New Jersey Housing Authority. HUD has found a number of management abuses in the local authority, including excessive executive salaries -- the Authority's Executive Director drew in excess of $245,000 per year.

Secretary Kemp expects that additional investigations of Public Housing Authorities may yield similar results in months to come. Significant local press attention is anticipated.

Attachment

cc: Marlin Fitzwater
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DRAFT

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FOR RELEASE:
Monday,
January 22, 1990

KEMP TAKES ACTION TO PROTECT
PUBLIC TRUST IN PASSAIC

Secretary of Housing and Urban Development Jack Kemp today suspended the top management of the Passaic Housing Authority, an institution under the control of the local Board of Commissioners which receives millions of dollars in federal low income housing subsidies each year.

Among the problems in the Passaic Housing Authority--a housing authority which administers 699 low rent units, 1,056 Section 8 certificates or vouchers, and 192 leased low rent units--were grossly excessive salary payments in 1988 of $245,956 to the Executive Director, and $106,868 for the Deputy Executive Director; and $486,327.95, over a three-year period, for the Authority's attorney.

"I will not allow the misuse of public funds at the national <u>or</u> the local level," Secretary Kemp said. "The actions of these individuals are a clear violation of the public trust and a betrayal of the low income families in Passaic who need housing assistance."

Other known irregularities include abuse of taxpayer-funded travel, abuse of credit cards, abuse of vacation policy, and failure to follow federal property management standards.

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HUD has suspended Paul Marguglio, Executive Director of Housing Authority; Donald V. Pieri, Deputy Executive Director, Peter Marrocco, Chairman of the Board of Commissioners; William P. Scruggs, Vice-Chairman of the Board of Commissioners; and August Michaelis, Counsel to the Passaic Housing Authority. Under the suspension, none of these individuals can be paid with federal funds or participate in HUD programs, either in their own right or on behalf of the Authority.

HUD has also issued limited denial of participation letters to Emil G. Moretti, Chief of Operations, to prohibit payment of salaries in excess of the amount authorized for his position as Chief of Maintenance; Robert Cantalupo, Maintenance Supervisor is denied his job due to his maintenance of an animal shelter on the authority's premises; and Brian Kennedy, Consultant, and William Katchen, Fee Accountant will not be allowed to participate in the federal public housing program in New Jersey due to irregularities in programs for which they provided services.

HUD is not impugning the good faith of the Board of Commissioners or the Authority, merely the activities of the affected individuals. Accordingly, HUD has asked the remaining members of the Board of Commissioners to inform HUD immediately of arrangements to be made for the management of the Authority, to sue for recovery excess compensation paid to Marguglio, Pieri, and Michaelis, to commence proceedings under State Civil Service laws to remove the disciplined individuals from office, and to respond to the audit findings in 30 days.

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HUD issued a notice last week to all 3300 Public and Indian Housing Authorities emphasizing the impropriety of one person occupying more than one full-time position in a public housing agency.

In addition, HUD's Office of Public and Indian Housing is evaluating the Public Housing Decontrol Program; and, a Strike Force has been formed under the direction of Secretary Kemp's Special Advisor, Joseph G. Schiff, to examine and investigate the state of public housing management by locally controlled public housing authorities throughout New Jersey, as well as the operation of the Assisted Housing Branch in HUD's Newark Office.

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