A Tenth Anniversary Celebration of

The Kemp-Roth Tax Cuts: The Importance of America's Victory Over Washington

The Heritage Foundation's Lehrman Auditorium

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Opening Remarks

Dr. Edwin J. Feulner, Jr.

President, The Heritage Foundation

Videotaped Message from **President Ronald Reagan**

Panel Discussion

Dr. Richard W. Rahn

Vice President and Chief Economist, U.S. Chamber of Commerce

Dr. Paul Craig Roberts

William E. Simon Chair in Political Economy,
Center for Strategic and International Studies

The Honorable Jack F. Kemp

Secretary, U.S. Department of Housing and Urban Development

Reception Speakers

Horace Cooper

Legislative Assistant, Office of Representative Richard Armey

Krassimir Kostov

Second Secretary, Embassy of the Republic of Bulgaria

Grover Glenn Norquist

President, Americans for Tax Reform

Host Committee

American Conservative Union

American Legislative Exchange Council

Americans for Tax Reform

Cato Institute

Citizens for a Sound Economy

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The Heritage Foundation

The National Center for Public Policy Research

National Taxpayers Union

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U.S. Chamber of Commerce

The Kemp-Roth Tax Cuts:
The Importance of America's Victory Over Washington

Dr. Edwin J. Feulner, Jr., President, The Heritage Foundation: Good evening ladies and gentlemen, I am Ed Feulner. On behalf of all of my colleagues at The Heritage Foundation and all of our co-sponsoring organizations, it is a real treat to welcome you here today.

We celebrate the tenth anniversary of the Kemp-Roth tax cut bill. The bill was of course signed exactly ten years ago today. It introduced a decade of prosperity and economic growth, more than 20 million net new jobs. But, in fact, it was a lot more than that. It was a victory over pessimism, over the notion that the history of the United States would be ever worsening for future generations. It was the year that America defeated Washington. It proved that sound economic ideas, coupled with hard work, could succeed in this day and age. To us conservatives, it rebuilt the coalition—traditionalists, libertarians, neo-cons, paleo-cons and everybody in between came back together into a powerful movement with this one fundamental idea.

Our work, our coalition, also had global ramifications—in Eastern Europe, throughout the Soviet Union and the republics of the Soviet Union, throughout the Third World. Individuals all around the world learned that they were inspired by the United States, and that they would not have been inspired by the United States patterned after the late 1970s when the economy was sluggish and our nation was dispirited. Those who participated in the revolutions that culminated in 1989 and continue today throughout Eastern and Central Europe saw that the economic liberty that was produced in the United States could also be replicated elsewhere around the world; they wanted it for themselves.

Even as we shake our heads in disappointment over the tax hikes of the Bush Administration, we also remember that no battles are won or lost in a single day; there is no such thing as a permanent victory or a permanent defeat in Washington.

Today we have a model for success — the Kemp-Roth tax bill. And it has been buttressed by a decade of proof, a decade of economic expansion and prosperity the longest peace-time economic expansion on record.

This evening's program is going to begin with a videotaped message from President Reagan, around whom all of us rallied to bring about these tax cuts.

> **Ronald Reagan:** Hello. I'm delighted to greet so many friends and allies gathered at The Heritage Foundation to celebrate the Economic Recovery Tax Act of 1981. As you know, ten years ago today I signed into law a revolutionary tax-cutting measure that allowed Americans to keep more of their own money, and to more freely make decisions for their family's well-being. The critics, of course, were adamant that it would never work — they maintained that, somehow, the government knew better how to spend the family's money than did the family.
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> Well, the critics were dead wrong. That tax cut, sponsored in Congress by then Representative Jack Kemp and Senator Bill Roth, helped usher in the greatest peacetime economic expansion in American history. Twenty million new jobs were created, real national income rose 32 percent, and millions of new businesses were started. We knew all along that tax cuts would prompt Americans to work harder, to invest, to become entrepreneurs, or just to spend more of their own money as they saw fit.

Now that tax cut didn't just benefit the American family, as important as that is — it was at the heart of a plan we had ten years ago to stimulate investment in America. And it's that tax cut that helped bring interest rates down, strengthen the dollar, cut inflation, and once again make America the best place in the world to invest.

And you know, the dramatic tax cut of ten years ago not only helped redefine the role of government in the U.S. economy, but it also had global implications. The success of the tax cut at home challenged and eventually forced other countries to change many of their own impediments to economic growth. And I think that the inspiration of a growing, prosperous America is what finally encouraged so many freedom fighters around the world to throw off the shackles of communism, and still encourages others bound by totalitarianism.

It's particularly appropriate that this event, in honor of one of the most significant tax reductions in American history, is being held now, because it draws attention to the importance of tax reduction to a strong economy. Many of the tax battles were won in the 1980s, but unfortunately, the war isn't over. Even now, the drum beat for new taxes is continuing on Capitol Hill. This is despite the fact that the tax hikes of last fall are already proven failures, which cost Americans millions of jobs and actually lost revenue for the government. When will Washington learn? When you tax production and growth, you get less of both.

So even now, after so much success, we must be ever vigilant against the arm of government reaching further into our lives and into our pockets. I encourage all of you to stand firm against higher taxes that cripple the family and the economy, to put the tax-and-spenders on the defensive, and to continue to press for lower rates and more individual freedom.

I especially thank Secretary Kemp and Senator Roth for their work in helping us bring about the prosperity of the 1980s. I know that many others of you here today were very instrumental in that battle, and I thank you. Continue the good fight, and tonight, have a wonderful celebration of a job well done.

Dr. Feulner: Let me read a letter from the other half of Kemp-Roth, Bill Roth, who unfortunately could not be with us today:

> Though I can't be with you today I'd like to join you in spirit in celebrating the tenth year anniversary of the Kemp-Roth tax cuts. These tax cuts laid the foundation for the longest peacetime expansion in U.S. history. Under the tax cut program, America escaped from the malaise of stagflation. Our economy expanded by one-third since 1981, and real family income increased for all Americans. Ten years, and almost twenty million jobs later, the economic success of the tax cuts will mark them as a turning point in American economic history.

In closing, I'd like to thank my partner, Jack Kemp, President Ronald Reagan and the conservative movement for making our tax cut program a success.

In the decade ahead we will need to apply this successful approach we used in 1981.

Sincerely,
Bill Roth

Ladies and gentleman, we are indeed fortunate to have with us today three distinguished panelists who, in different ways, made the idea of the tax cuts of 1981 a reality. They were the brain trust behind Kemp-Roth during the Carter economy's dark days.

First, Dr. Richard Rahn, one of the original supply-siders. In the mid-1970s he worked with Art Laffer and David Ranson to develop one of the first supply-side models of our economy. He serves now as Vice President/Chief Economist at the U.S. Chamber of Commerce, and has held that position since 1980. In 1981 he served as a member of President Reagan's Tax Policy Task Force.

At the Chamber he coordinated the business community's lobbying effort in support of Kemp-Roth. And as Chief Economist, he manages the Chamber's economic policy division and is their spokesman before Congress, the national news media, and other groups on economic and tax policy issues.

He's also broadened his horizons beyond the United States, and it should be noted that during 1990 he spent a great deal of his time in Bulgaria trying to transform it into a free market paradise. The only problem was, while he was gone someone was not watching the store back here in Washington; and therefore, there are petitions to deny Richard Rahn any more visas anywhere else to make sure he stays here to keep things on track in the United States. Richard?

Dr. Richard Rahn, Vice President and Chief Economist, U.S. Chamber of Commerce: Thank you Ed. I think that last remark of yours was written by Dick Lesher, who is here and keeps saying he needs help here with the war against increased taxes, regulation and government spending.

Ten years ago what kind of odds would you have given me if I told you that in 1988 the most liberal Democratic candidate for the U.S. Presidency, Jesse Jackson, would be advocating a tax rate of 38 percent as the highest marginal tax rate on the rich in America. You probably would have given me very long odds. If I had been smart enough to have done that, I could have been a rich man by now.

Well, it is ten years later. We have won a number of battles, but we certainly have not won the war. And I think back about what our critics claimed. During the 1970s, as most of you in this room know because so many of you were deeply involved, it was lonely out there for us. We were highly ridiculed, particularly Jack, for wanting to reduce the maximum marginal tax rate from 70 down to 50 percent. When the tax cuts were proposed, Jack and all the rest of you were under constant attack. Such things were claimed by our critics as, "The tax cuts will be inflationary." I remember the *Washington Post* editorial page day after day after day; this was an endless drum beat.

In fact, the dean of the Keynesian economic establishment, Lyndon Johnson's former Chairman of the Council of Economic Advisors, Gardner Ackley said, "What I am ready to predict and to promise, is the effect of the President's program will not be as he so confidently and repeatedly predicts to cut the present inflation rate by more than half. What other effects it would have on the inflation rate surely would work in the opposite direction, unless there is a great deal to the supply-side argument. The Administration's projection is that inflation in the Consumer Price Index would decline from 11.1 percent in 1981 to 4.2 percent in 1986. That, I think, would truly be a miracle." Of course, the actual effect was that inflation dropped to 1.1 percent in 1986.

We were told by the critics that growth would fall, that we would have an immediate, economic collapse, there was no chance for an economic turn-around. I remember Norman Ture and Jude Wanniski and many of the rest of you having to do battle on that. And we have this great quote from Lester Thurow, again, one of the leading Keynesian economists. He said, on October 17, 1982, in *The New York Times Magazine*: "The engines of economic growth have shut down here across the globe. And they are likely to stay that way for many years to come."

That was one month before the longest peacetime economic expansion in our nation's history began.

We were also told the rich would pay less in taxes. Of course, the tax burden in actual effect changed from the top five percent in 1979, paying a thirty-eight percent of the total income tax burden, to paying forty-six percent by 1988.

We were told the tax cuts would lose revenues. Well, tax receipts went from $600 billion in 1981 to $991 billion in 1989. And of course, the fact of the matter is that the low-income people did have their total tax burden reduced, but the upper-income did take a much greater share of the tax liabilities. We were told this would greatly increase the deficit. Well, the deficit went from 4.1 percent of GNP in 1982 (the year before the tax cut program went fully into effect) to only 3 percent in 1989. Unfortunately, it has now soared again.

What lessons have we learned? Well, the empirical evidence is overwhelming that lower tax rates, restraints on government spending, restraints on the growth of regulations leads to rapid economic growth and prosperity and a higher standard of living for virtually all Americans. The opposite is also true as, unfortunately, we are seeing now. Higher tax rates, more government spending, more regulation leads to stagnation or recession.

Most people around the world, as President Reagan just pointed out, have also learned this basic lesson. As a result of the Kemp-Roth cuts and the lessons learned, tax rates in virtually every major country throughout the world dropped. You mentioned Bulgaria. Well, I see Paul Weyrich and many others who have been working in Eastern Europe, and it is very interesting. The Eastern Europeans come to the people who were on the pro-growth side, and they are trying to learn their economic lessons from that. You hear no talk of Keynesism in Eastern Europe or the Soviet Union.

We have also learned, however, that the fundamental lessons of the Kemp-Roth success are not well remembered, or were never learned, by much of the American news media, much of the Congress, and even people in a Republican Administration. As one example, look at the flexible freeze which George Bush ran on in 1988, which all of us here endorsed. Vin Weber was a leader on that.

Well, what happened? They got away from it. They forgot the plan. So, by next year, according to Dick Darman's old budget projections, federal spending will be 18 percent higher in 1992 than that projected back in 1988, and tax revenues will be 8 percent lower. The deficit has gone from percent of GNP to 5.7 percent of GNP. This is despite the grand budget accord which is supposed to save us 500 billion dollars.

Well, not all is lost. Fortunately, you all are still here. The battle goes on and we have our leader, Jack Kemp, to again raise the flag and go for pro-growth economic policies of tax rate reduction, spending restraint, and regulatory restraint. And we know that eventually we will get back to those golden Reagan years. We need a leader, Jack.

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Dr. Paul Craig Roberts, William E. Simon Chair in Political Economy, the Center for Strategic and International Studies : Tonight I intended to present an indictment of the mismanagement of economic policy by the Bush Administration. But I can do that in one of my columns without embarrassing my good friend Secretary Kemp. Besides the Bush performance speaks for itself. Three years in office has produced an average annual rate of real economic growth of 0.1 percent—the worst performance since Franklin D. Roosevelt more than a half century ago.

This evening is a celebratory, festive event, and I am honored to be here with the man who led the business community and the man who led the political community to the restoration of the American economy. The first thing I want to do is to acknowledge some of the other heros who are not sitting here. Steve Entin—without Steve Entin there would have been no tax cut. Is Norman Ture here? No economist is perfect, but Norman is as close as they come. Is Wanniski here? The irrepressible Jude. Bruce Bartlett? A central figure in all of this is Bob Bartley, editor of *The Wall Street Journal*. Are any of Roth's people here who date back to 1977? Without courage to take on the establishment there can be no change. I salute the courageous who defeated the vested interests of Washington.

I will use my remaining time, and if necessary an extra minute or two, to review the legislative history of Kemp-Roth. On February 23, 1977, the House Republicans led by Kemp, John Rousselot, and Marjorie Holt caught the Democrats off guard by offering as a substitute to the first budget resolution for FY 1978 (Jimmy Carter's $50 rebate) "across-the-board tax reduction for every American." The Republican effort went down 148-258, but it was a new beginning.

On March 15, 1978, Kemp and Al Quie (later the governor of Minnesota) offered Kemp-Roth as an amendment to the Humphrey-Hawkins full employment bill, a form of national economic planning. Kemp-Roth lost on a surprisingly close 194-216 vote, considering the 115-vote majority the Democrats had in the House.

On May 3, 1978, Kemp-Roth combined with limits on the growth of spending, passed the House of Representative as the Holt amendment to the first budget resolution for FY 1979. The democratic leadership was furious and forced eight members to change their votes. On the recount Kemp-Roth went down 197-203.

The first week of August 1978, Kemp-Roth amendment to Ways and Means tax bill went down 177-240.

One week later on August 16, 1978, Holt amendment to the second budget resolution lost 201-206.

Beginning of October 1978, Kemp-Roth amendment to Finance Committee tax bill lost 36-60.

But a few days later on October 9, 1978, the Nunn amendment, better known as the son of Kemp-Roth, which combined the Kemp-Roth tax rate reductions phased in with limits on the growth of spending (essentially the Holt amendment), swept the Senate 65-20.

Three days later the House voted 268-135 to instruct its conferees to support the Nunn amendment in the House-Senate Conference on the Tax Bill.

Kemp-Roth was killed in the Conference by the Carter Administration and business lobbyists.

Three months later the Joint Economic Committee of Congress called for a supply-side economic policy in its 1979 annual report. It repeated this call in 1980. On May 21, 1980, the JEC held hearings on the econometric models, during the course of which important Keynesian forecasters crossed to the supply side and aligned with us.

On August 21, 1980, during the presidential election campaign, the Senate Finance Committee led by Russell Long reported out the Tax Reduction Act of 1980 which combined personal income tax rate reductions with faster depreciation write offs.

Less than a year later Reagan signed the Economic Recovery Tax Act of 1981. Despite the efforts of Stockman, Darman, *The Washington Post*, *The New York Times*, and the television networks, we still have it.

Unfortunately for America, however, the Republican Party is as brain dead today as it was sixteen years ago when Jack Kemp took over its leadership. It doesn't denigrate Jack to point out that he was nothing but a junior congressman in the minority party with no forums on tax or budget committees. Yet, by 1977 he had taken leadership of the economic policy debate in the U.S.

Jack, I would like to say how thankful I am that you and your administrative assistant Randy Teague talked me into coming to work for you in 1975 instead of taking a job in the White House. I would be a sad fellow if I had to go around today saying that I could have been a part of Kemp-Roth but I went to work for President Ford instead.

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The Honorable Jack F. Kemp, Secretary, U.S. Department of Housing and Urban Development: Thank you very much, Ed Feulner, and thanks to the Heritage Foundation and all the organizations hosting this celebration of the tenth anniversary of the Kemp-Roth tax cuts.

I'm proud to be here with so many of the architects of the Reagan Revolution. I talked today to both President Bush and President Reagan. They send their very best wishes to all of you. I'm only sorry my comrade in arms, Senator Bill Roth, couldn't be here tonight.

A decade of unprecedented job creation, entrepreneurship, and prosperity has vindicated our formula for economic growth. But when we first proposed the idea that tax cuts could cure Jimmy Carter's stagflation, critics called us extremists and said our ideas were dangerous and untested. Well, I want to read you something from an early "supply-sider." " It is a paradoxical truth that tax rates are too high today and tax revenues are too low — and the soundest way to raise revenues in the long run is to cut rates now."

No, that wasn't Ronald Reagan in his 1980 campaign. It wasn't even Jack Kemp or Bill Roth arguing for tax cuts on the floor of the Congress.

That was President John F. Kennedy, speaking in 1962, explaining his strategy to reduce marginal tax rates by 30 percent and restore economic growth. Under JFK's supply-side tax cuts, inflation dropped, unemployment fell below 4 percent, and the budget came into balance by 1965.

President Kennedy wasn't the first leader to apply this classical prescription for economic expansion. President Calvin Coolidge and Treasury Secretary Andrew Mellon used it in the 1920s. West Germany's post-war Finance Minister, Ludwig Erhard, used it to launch his *Wirtschaftswunder* in 1948. This was the historic model we looked to in formulating the first Kemp-Roth bill in 1977.

It seems strange to recall that in the days of Jimmy Carter many of our nation's leaders believed the American Dream was over. They thought America was over the hill and had begun an inevitable decline.

It was said we had entered an age of limits. We were running out of oil and gas; the entrepreneurial spirit was dying; over-population was starving our natural resources; and economic growth was impossible without inflation. Their nightmare prophecy of doom and gloom went on and on, ad nauseam.

Jean-Francois Revel's *How Democracies Perish* questioned whether the relatively brief period of democracy was perhaps closing before our eyes. The Global 2000 report envisioned a world smothered by pollution, threatened by too many babies, totally depleted of natural resources.

Throughout the 1970s, the liberals lowered their sights, dimmed their hopes, and seemed on the verge of abandoning the Founders' audacious call for a *novus ordo seclorum* — "a new order of the ages."

This grim vision of America can be summed up in one word: "Malthusian." This was the worldview which led the liberal-left in the Democratic Party to support people like George McGovern, Jimmy Carter, Walter Mondale, and Michael Dukakis. Not coincidentally, it was also the worldview which led them to four landslide electoral defeats.

Today is the tenth anniversary of an important turning point in American history, which makes it a perfect time to recall the lessons of the past and consider some important policies for the future. On August 13, 1981, President Ronald Reagan signed into law the Economic Recovery Tax Act which cut marginal tax rates and launched America's longest peacetime recovery.

Over three years, federal income tax rates were cut by 25 percent and adjusted for inflation to restore incentives for American workers. The capital gains tax rate was cut by 30 percent to spur entrepreneurship and investment.

What followed in the 1980s defied all the Keynesian predictions. *Business Week* warned that Kemp-Roth "would touch off an inflationary explosion that would wreck the country and impoverish everyone on a fixed income." James Tobin of Yale said interest rates would rise, investment would fall, and productivity would stagnate.

Well, interest rates *dropped*, investment *rose*, and manufacturing productivity growth *expanded* to fully three times its dismal 1970s rate. Inflation plummeted from 13 percent to less than 4 percent, and has stayed relatively low ever since. All in all, the economy grew by over a third and revenues expanded by nearly 40 percent. It still astounds me to recall the arrogance with which liberals attacked our proposal to lower tax rates on workers and investors.

In April of 1980, Paul Samuelson, author of the standard college textbook on economics, told a reporter, "I don't think there is any scientific research behind [supply side economics] that is impressive. There are almost no journal articles that take these things seriously. They are not buttressed by time-series analysis or Harvard case studies . . . . "

Fortunately, Ronald Reagan did not listen to either Paul Samuelson or the editors of the *Harvard Business Review* before signing the Reagan-Kemp-Roth bill. He listened to the American people, the people whose jobs and futures were at stake.

The elegant theorems of Keynesian econometric models could not, and do not today, account for the intangible, dynamic role of innovation, creativity, human enterprise, and initiative, which is the heart and soul of the supply-side economic model. From the beginning, critics of Kemp-Roth mistook our agenda as a giveaway to the rich. But the tax cuts did not redistribute wealth, they created new wealth. The Reagan-Kemp-Roth tax cuts were aimed directly at individual Americans in order to restore incentives for work, productivity, and investment in the innovative new firms which are the main source of new products, new jobs, and new technologies. It was individual talent, energy, and ability that we were seeking to unleash.

As a Congressman from Buffalo, a heavily blue-collar community, I realized that the conventional Republican message of balanced budgets, high tax rates, and fiscal austerity would not help districts like mine where so many people could not find jobs, afford a new home, or start their own business. It was not only bad politics but lousy economics as well.

I remember to this day President Carter's Chairman of the Council of Economic Advisers, Barry Bosworth, saying in 1979, "... if the [fiscal] restraints are really to have an impact on the rate of inflation, government expenditures must be reduced, and aggregate demand, production, and employment must also be reduced." "The result," he said, "will be to throw a few million people out of work. To be sure," he added — listen to this! — "*if enough of them are out of work, they will cease asking for wage increases.* No one likes to say that, but that is what lies at the heart of the proposal for fiscal and monetary restraint." Wow! Not since Marie Antoinette .... That's his version of "let them eat cake."

I read that very quotation at Teddy Gleason's International Longshoremen's Convention in 1979. I pointed out that their 30 percent wage increase negotiated three years earlier had dwindled to just one-half of one percent due to inflation or a loss of nearly 15 percent after taxes. The collision of inflation and steeply-graduated tax rates was pushing working people into brackets previously reserved for only the wealthiest Americans.

When I proposed an across-the-board 30 percent cut in income tax rates indexed for inflation, these working people and labor activists — many of whom probably never voted for a conservative Republican in their lives — gave me one of the most memorable and most satisfying ovations of my political career.

These working families understood the simple truth that economic growth and investment cannot be promoted by punishing labor. The ILA went on to endorse Ronald Reagan, along with millions of other working men and women.

As President, Mr. Reagan applied this idea when he outlined his economic program to the American people just weeks after the inauguration in 1981. He pledged that, "We will restore the freedom of all men and women to excel and to create. We will unleash the energy and genius of the American people, traits which have never failed us . . . The only special interest that we will serve is the interest of all the people . . . Our aim is to increase our national wealth so all will have more, not just redistribute what we already have."

Ronald Reagan was using the Good Shepherd model, in which no one can be left behind. Ten years later, nations around the globe are rushing to join the democratic capitalist juggernaut launched by Thomas Jefferson in 1776 and rescued by Ronald Reagan in 1981.

Yet some revisionists seek to rewrite history by calling the 1980s "a decade of greed."

It wasn't a decade of greed, it was a decade of growth. Unprecedented growth. The most productive decade in history. The American economy produced nearly 20 million new jobs, more than Europe and Japan combined. Some five and a half million new businesses were created. And while the Fortune 500 companies did trim down to meet the foreign and domestic challenges, the entrepreneurial sector took over, generating more than two-thirds of all net new jobs.

And it was not a narrow recovery for the select few, but a broad-based recovery that included blacks, Hispanics, immigrants, indeed all Americans. From 1982 to 1987, the number of black-owned firms increased by nearly 38 percent, about triple the overall business growth rate during that period. Hispanic-owned businesses soared by 81 percent. The number of black families earning $50,000 a year doubled during the 1980s — a stunning accomplishment.

Critics still contend that the recovery occurred at the expense of "competitiveness." They imply that all those Americans who went back to work were just flipping hamburgers, not producing tangible goods.

But the reality is that America did not become "de-industrialized" during the 1980s, as liberal Democrats claim. The fact is, the manufacturing sector's share of GNP actually *increased* by 10 percent from 1980 to 1990. Any way you look at the Commerce Department numbers, you come up with the same answer. Americans were not just flipping hamburgers.

The effects of the Reagan-Bush recovery were felt far beyond our borders, extending the promise of free markets and free elections from Managua to Minsk. How different from the day Ronald Reagan and George Bush came into office. Then the Soviet Union was advancing on every front. The Third World was mesmerized by Soviet power and caught up in the myth of socialist-style planning. But with stunning rapidity, the American "economic miracle" helped stimulate a crisis in the Communist and Socialist world and helped catalyze a worldwide democratic capitalist revolution.

Yet we as conservatives cannot, in all good conscience, declare that we have fulfilled our mission, that the Reagan Revolution is complete. Not when the American Dream remains for all too many Americans a mirage, receding with the horizon. This is our next great challenge — to expand the wealth of our own nation and extend hope and opportunity to all our people.

While some people believe the economy is pulling out of recession and others argue it is still weak and fragile, we can all agree that steps must be taken to ensure that the recovery is strong and long-lasting.

We must now launch a new era of non-inflationary economic growth. It is time for a new round of tax incentives for risk-taking, job-creation, and investment — marshalling the classic American formula for combatting poverty. Millions of Americans, including many of our parents and grandparents, escaped poverty by getting a job, starting a business, owning a home.

Today these routes to economic independence are blocked for many poor Americans. The liberals' huge 65 percent increase in the capital gains tax in 1986 has cut off the flow of capital in inner city neighborhoods. That, coupled with the credit crunch, helped cause an unnecessary recession which hurts poor and minority Americans hardest.

President Bush has courageously and consistently asked Congress to cut capital gains taxes, not to help the rich get richer, but to help the poor get richer; not to help existing businesses, but to help the entrepreneurial and small business start-ups; not to redistribute wealth but to create more wealth in our national economy.

The President recognizes that entrepreneurs in urban America need access to seed capital. Many economists and business leaders argue the capital gains tax should be eliminated for assets held for three years or more. I strongly agree and I also believe, as does President Bush, that it should be eliminated in Enterprise Zones to help create new businesses, more jobs, and more minority ownership of enterprise and property. What's the point of a capital gains tax where there's virtually no capital gains to begin with? As President Bush has said, capital gains is a "tax on the American Dream."

The time has come for a bi-partisan effort to support President Bush's proposal to cut capital gains taxes. We must also lower the tax rate on labor and the American family. Such a program coupled with an anti-poverty Enterprise Zone bill would help end this recession and make the 1990s yet another decade of record growth.

Writing in the *Washington Post* last Sunday, David Broder called the Reagan tax cuts "a revolution in fiscal policy." Like any revolution, it began with a radical new vision of the future. And like the American Revolution, that vision was grounded in time-honored principles about freedom, incentives, and human nature.

Those principles are as valid and instructive today as in 1981 or 1776. As conservatives, we must rededicate ourselves to the same pro-growth principles which formed the foundation for the Reagan tax cuts of 1981 and galvanized the nation and our party during the last decade. We must use entrepreneurial capitalism as a tool for meeting social as well as economic challenges and commit ourselves to helping the millions of Americans still living in poverty to recapture the American Dream.

Only then can we make this great experiment in human freedom and democracy the example it was meant to be for all the world.

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Reception Speakers

Ed Feulner: And now I would like to introduce to you some young people who exemplify the views of many in a generation whose lives were perhpas most profoundly changed by the growth of the 1980s.

Horace Cooper, Legislative Assistant, Office of Representative Richard Armey: I was watching the news the other night—shortly after Clarence Thomas was nominated. Dan Rather said that if you were a black conservative Republican, like myself, that you were a reactionary. I am not going to respond to that charge. I think people who know me can decide that for themselves. Tonight I want to give tribute to an idea that I do not consider controversial, and certainly not reactionary, that is the idea of helping people to help themselves.

I believe that a job is the best social program ever invented. Teaching people to help themselves is vastly superior to any type of handout. And it was this notion that was engendered by the Kemp-Roth tax cut of 1981.

This tax cut benefitted all Americans, including blacks. If you look at the number of black owned businesses or black middle class families or—at a category that I am particularly interested in—the number of black millionaires, since 1981 you will see a vast and substantial improvement.

The Kemp-Roth tax cut sent a clear message—one desperately needed after the Carter malaise—that a renewed attitude of self-reliance would be rewarded. I believe that capitalism is an attitude more than anything else and the Kemp-Roth tax cut was instrumental to unleashing an attitude of possibility thinking. Blacks and other minorities saw a host of new economic options that were available to them during the 1980s. People were able to buy a home for the first time, others were able to send their children to the schools and universities of their choice. And still others were able to invest in new business. It cannot be denied that lower unemployment and increased investment benefit everyone, including black Americans.

I think it is becoming increasingly clear that conservative solutions like the Kemp-Roth tax cut offer encouragement rather than condescension to people in need. I hope that during the 1990s we will be able to build on this foundation because Ronald Reagan was right when he said a rising tide lifts all ships.

Krassimir Kostov, Second Secretary, Embassy of the Republic of Bulgaria: Some of my American friends have told me that the Kemp-Roth tax cuts made 1981 a very happy year for all Americans for they were relieved to a great extent from the burden of the taxes—probably the only burden an American has to bear.

1981 was supposed to be a very happy year for us, the Eastern Europeans, as well. According to the Program of the Communist Party of the Soviet Union passed under Khrushchev, by 1981 Communism was supposed to come to Eastern Europe. It did not happen in the way it was planned and instead of Communism we had the Olympic Games. They really brought some happiness to the people in Moscow where I was a student at that time—there was enough imported French perfumery for the ladies and enough imported Scotch for the men who found that to be a much better form of trade than the subsidized grain.

At the same time something strange and inexplicable to the communist rulers of Eastern Europe was happening. The people in Poland and more exactly the "horrible Polish working class that did not understand its true and vital interests," decided to relieve itself from "the only and true defender of the interests of the people and the working class" —the communist rulers of Poland. That is how the changes in Eastern Europe really started.

These changes would have been impossible without a miracle which happened in the 1980s in the United States as a result of the Kemp-Roth tax cuts—a miracle turned reality by President Ronald Reagan, by those "horrible conservatives" and the "especially bad guys" from the Heritage Foundation (in the terms of the media from our part of the world at that time, not the American media today). In fact, you could not find a single normal person in Bulgaria or all over Eastern Europe at that time who would have believed in the lies of the media about the United States. On the contrary—what we were seeing was that weakened, offended, and often mocked at in previous years, the United States regaining its strength, its powers, and its inspiration. The America of Ronald Reagan, of the Conservative Republicans, and of The Heritage Foundation was a true inspiration to all of us who wanted to be free and to build democratic societies with free market economies.

From that time on I remember something an American who is probably here tonight wrote: America is not the Land. America is not the Flag. America is an Ideal—an Ideal of Freedom and Democracy. That is what America was for all of us. And that is why the changes in Eastern Europe and in Bulgaria in particular could become reality. We believed and we had the inspiration of the example and the strength of America. Though today this fact is sometimes forgotten or omitted even here in the U.S.A., it still makes us believe that freedom and democracy will come to many other nations who still suffer under Communism and oppression.

That is why I would like to finish my brief remarks by simply thanking Secretary Kemp, for the Kemp-Roth tax cuts cut the most horrible of all the taxes we were paying—the tax on our freedom.

Grover Glenn Norquist, President, Americans for Tax Reform: It is a source of amazement and sorrow to aging members of the establishment that younger Americans are increasingly conservative, Reaganite and deeply suspicious of government "solutions" to today's challenges. This should surprise no none.

Younger Americans, those The Heritage Foundation has aptly labelled the "Third Generation," grew up knowing two Presidents—Jimmy Carter and Ronald Reagan. One was a failure who brought America inflation, unemployment, a falling standard of living and international retreat and ridicule.

Ronald Reagan brought us lower taxes, growth, lower inflation, economic and military strength that blossomed into international and self respect, leadership abroad, and the collapse of our enemies.

The Kemp-Roth tax cut, the across-the-board cut in income taxes for all Americans, had a profound influence on younger Americans. It is the great divide between Carter and Reagan, between the failures and malaise of the past and the hopes and triumphs of the future.

The establishment, our teachers, our professors—those who told us to sit down and listen to their wisdom—promised that the Reagan-Kemp-Roth tax cuts would bring inflation, recession, depression, fewer jobs. The establishment was wrong—completely, totally, and verifiably wrong. The Reagan tax cuts brought 20 million new jobs—jobs for us—lower inflation, lower interest rates, real economic growth, and an explosion of new small business creation. Our teachers had lied to us. We broke through our own Berlin Wall. The establishment wonders why we will not now listen to their siren calls for higher taxes, new government programs to fix the broken promises and broken lives of those trusting victims of past government solutions.

We have seen what works. We have seen what fails. The tax cuts of Kemp-Roth, the opening salvo of the Reagan Revolution, worked. We will not go back to the past where a Berlin Wall of high taxes, regulation, and big government stood between America and her unlimited future.

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