

Fighting a new war on poverty

by Jack_Kemp

To ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are left to stand aside. - Sen. Robert F. Kennedy

Mario Cuomo of New York electrified the 1984 Democratic Convention with his tale of America as two cities, one rich and one poor, almost permanently divided into two classes. Today John Edwards is running for president on this same platform and using the same metaphor.

But America is not divided into two cities; instead, America is divided into two separate and unequal economies, one that works well and one that is fatally flawed and must be fixed so as to combat poverty.

Our mainstream economy is entrepreneurially capitalistic: It is market-oriented and based on private property, ownership, the rule of law and with widespread access to capital and seed corn for new business ventures. It rewards work, savings, investment and productivity. This economy dominates the American market and serves as an example to the world of democratic capitalism.

The second economy functions in almost direct opposition to our mainstream capitalist economy. Similar to a Third World socialist economy, it denies people an entry into the mainstream due to the barriers to economic activities along with a virtual absence of any link between human effort and reward. It perpetuates poverty, dependency and welfare while discouraging employment, and it prevents access to capital, ownership of assets and quality education.

The irony is that this second economy was created out of a desire to help the poor, alleviate suffering and provide a social safety net. However, instead of independence, this welfare-based economy has led to near perpetual dependency, and the social and economic costs to our nation are enormous in terms of unfulfilled potential and dashed dreams.

As secretary of Housing and Urban Development from 1988 to 1993, I visited pockets of poverty in ghettos and barrios throughout America. I spoke personally with people living in the depths of poverty and hopelessness. I vowed then to take part in a bipartisan effort to help create an urban American Renaissance. I applaud Edwards' attempts to raise the issue of poverty and challenge the Republican candidates to join in the debate.

The problem is that self-improvement and ownership of assets are discouraged by regulatory and tax policies that trap people in impoverished areas. In too many cases, the poverty that exists today is due in part to government welfare coupled with regulatory and tax policies that punish work, savings and investment and

discourage ownership of assets. The system redlines certain areas of our country, limiting people's access to capital, credit, mortgage loans and well-paying jobs.

To wage a real war on poverty, we should launch a 21st century Marshall Aid Plan in the cities of America to reform education; create job opportunities; and provide access to capital, credit and ownership opportunities for low-income Americans. This plan must be based on equal opportunities to get jobs, own homes and launch businesses.

The first step is to create Enterprise or Empowerment Zones that would eliminate the capital gains tax in the newly "green-lined" zones, allow for expensing of all investment in plant machinery and technology, and eliminate payroll taxes for men and women who are first-time job holders up to 200 percent of the poverty line.

Next we need to cut the bureaucratic red tape that makes development in urban areas. We need to look at the legal barriers to production and commerce. Local impact (development) fees, application processing costs, building codes, zoning and land use restrictions, and nongrowth policies greatly increase construction costs. Instead of creating regulations that make it more difficult to build in urban areas, entrepreneurs need to be offered incentives for investing in cities.

We must develop a tax reform system that rewards labor, savings and capital formation. A sure way to harm the economy and slow growth is through a capital gains tax, which is not a tax on the rich but rather on the poor who hope to improve their situations. You can't get rich on wages. The only way to create wealth is to work, save, invest, make a profit and reinvest.

Finally, we need to provide homeownership opportunities and affordable housing to the most impoverished in society who often become trapped in public housing. Through public-private partnerships with organizations such as the Federal Housing Administration, Fannie Mae and the Federal Home Loan Bank, we need to dedicate a percentage of profits to help develop work-force and affordable housing while encouraging homeownership policies to get people on the path out of poverty.

Through eliminating America's second economy and tapping into the economic forces of a more democratic system of capitalism, we can develop a formula for ending chronic poverty in America. Everyone should have the opportunity to go as high as their merit, ability, determination and quality of their performance can carry them.

